

REPORT OF THE AUDITOR-GENERAL ON COUNTY EXECUTIVE OF LAMU FOR THE YEAR ENDED 30 JUNE 2018

REPORT ON THE FINANCIAL STATEMENTS

Disclaimer of Opinion

I have audited the accompanying financial statements of County Executive of Lamu set out on pages 1 to 48, which comprise the statement of financial assets and liabilities as at 30 June 2018, and the statement of receipts and payments, statement of cash flows, summary statement of appropriation and budget: 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 35 of the Public Audit Act, 2015.

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

Basis for Disclaimer of Opinion

1 Inaccuracies of Financial Statements

The financial statements reflected variances between the financial statements balances as at 30 June 2018 and the respective account balances in the Integrated Financial Management Information System (IFMIS) Ledgers as tabulated below;

Description	Financial Statements Kshs	IFMIS Ledger Kshs	Variance Kshs
Receipts	2,755,121,062	3,974,173,143	1,219,052,081
Expenditure			
Compensation of Employees	1,037,746,524	675,293,698	362,452,826
Use of goods and services	382,498,284	292,432,138	90,066,146
Transfers to Other Government Units	529,148,145	100,179,620	428,968,525
Other grants and transfers	83,376,339	85,028,540	(1,652,201)
Social Security Benefits	11,688,541	9,381,346	2,307,195
Acquisition of Assets	244,554,822	190,916,826	53,637,996
Finance Costs, including Loan Interest	109,515	-	109,515
Total Payments	2,289,122,170	1,353,232,168	935,890,002

Further, Note 25 to the financial statements reflects prior year adjustments amounting to negative Kshs.108,180,358. However, supporting details of the adjustments were not presented for audit verification. In addition, Annex 2 to the financial statements reflect

accounts payables amounting to Kshs.101,781,106 as at 30 June 2018 while the IFMIS vote-book reflects outstanding commitments of Kshs.157,701,231 for the same period resulting to an unreconciled variance of Kshs.55,920,125.

Consequently, the source, accuracy and completeness of the balances for the financial statements for the year ended 30 June 2018 could not confirmed.

2 Revenue - Own Generated Receipts

2.1 Inaccuracies in Reported Revenue

The Lamu Executive's own generated receipts of Kshs.63,437,304 as at 30 June 2018 were collected through two automated systems and manual receipts. The management availed for audit review two reports generated from the systems and a manual cash book to support the balance. An access and audit review of the systems revealed that no reports could be generated. Hence, it was not possible to verify independently the reports generated by the Executive to support the figure of Kshs.63,437,304 reported as County own revenue collection.

Further, the Lamu Executive maintained a manual cashbook for revenue collected. It was however observed that the management recorded in the cash book, the revenue banked and supported by the banking slips. The management did not use the receipt records for collection of revenue. It was therefore not possible to confirm whether all the revenue collected were actually recorded and accounted for.

In the circumstances, the accuracy and completeness of the county own generated receipts amounting to Kshs.63,437,304 as at 30 June 2018 could not be confirmed.

2.2 Revenue Under Collection

The Executive budgeted to collect local revenue amounting to Kshs.90,000,000 but ended up collecting only Kshs.63,437,304 which included Kshs.8,950,000 relating to refund on insurance claim which ought not to have been factored as local revenue and hence the correct realized revenue should have been Kshs.54,487,304 thus resulting to under collection of Kshs.35,512,696 or 30.5% of the revenue budgeted.

2.3 Revenue Automation

The Executive automated the revenue collection system in the financial year 2015/2016. However, the expenditure for year 2017/2018 revealed that the automation was done through two systems procured at a cost of Kshs.35,000,000 and Kshs.19,500,000 respectively all amounting to Kshs.54,500,000. However, the following anomalies were noted:

- (i) In spite of automation of revenue system, it was revealed that the department of public health and fisheries continued to manually collect revenue.
- (ii) The Executive procured a total of 60 Point of Sale (POS) gadgets. Out of this, only 40 POS gadgets were in use, 19 were still in the store and one gadget could not be accounted for with a likelihood that revenue may be collected using the lost gadget but

not accounted for. Further, nineteen (19) POS gadgets were lying idle in the store hence the Executive may have procured excess POS gadgets contrary to Section 53 (3) of the Public Procurement and Assets Disposal Act, 2015.

- (iii) Although the Executive had fully paid for the two systems, the contracts for the systems were not fully executed since mobile money payments was not activated, USSD for payments and querying was not activated, Integration with SMS date way for SMS alerts was not done and the two systems had not been integrated with IFMIS. In addition, no back up system had been installed as required by the Contract agreement between the Executive and the vendor.

Under circumstances, the probity and value for money for the revenue automation expenditure of Kshs.54,500,000 as at 30 June 2018 could not be confirmed.

3 Proceeds from Domestic and Foreign Grants

Included in the domestic and foreign grants figure of Kshs.85,516,641 under Note 2 to the financial statements is an amount of Kshs.31,560,246 received as a conditional grant for Kenya Development Support Programme (KDSP). A review of the expenditures, however, revealed the following anomalies: -

Item	Amount Kshs	Audit Issue
Development of Public Participation Policy for the County Government	7,955,000	Sections 78 (10) (b), 96, 121 (3), 123 of the Public Procurement and Assets Disposal Act, 2015 were not complied with. Records that are required to be kept as per Section 68 of the Public Procurement and Assets Disposal Act, 2015 were not made available for audit. An invoice was raised and paid two days after the local purchase order dated 28 May 2018 was issued an indication that payments were based on documents prepared and not actual work done.
Conference Charges	7,470,000	Records that are required to be kept as per Section 68 of the Public Procurement and Assets Disposal Act, 2015 were not made available for audit review. There was no documentary evidence such as attendance register, list of participants, training program availed to show that the trainings took place. The Local Service Order (LSO) issued indicated that the facilities were to be used between 1 May 2018 and 28 May 2018. An invoice was issued on 5 May 2018 and paid on 16 May 2018

Item	Amount Kshs	Audit Issue
		before the end of the period of the conferences an indication that payments were based on documents prepared and not conferences that took place.
Unaccounted for Air Travel	823,840	Records that are required to be kept as per Section 68 of the Public Procurement and Assets Disposal Act, 2015 were not made available for audit scrutiny. Further, details of the persons, air tickets, boarding passes, days travelled, purpose for the travel were not made available for audit.
Consultancy Services for Environmental and Social Impact Assessment	3,455,000	Sections 78 (10) (b), 96, 121 (3), 123 of the Public Procurement and Assets Disposal Act, 2015 were not complied with. Records that are required to be kept as per Section 68 of the Public Procurement and Assets Disposal Act, 2015 were not made available for audit. An invoice was raised and paid two days after the local purchase order dated 28 May 2018 was issued an indication that payments were based on documents prepared and not actual work done.
Consultancy Services for the County Human Resource Support	7,129,500	Sections 78 (10) (b), 96, 121 (3), 123 of the Public Procurement and Assets Disposal Act, 2015 were not complied within. Records that are required to be kept as per Section 68 were not made available for audit review. An invoice was raised and paid two days after the local purchase order dated 28 May 2018 was issued an indication that payments were based on documents prepared and not actual work done.

Consequently, the propriety of the expenditure of Kshs.26,833,340 being part of Kshs.31,560,246 for Kenya Development Support Programme (KDSP) could not be confirmed.

4 Cash and Cash Equivalents

4.1 Bank Balances not Disclosed in the Financial Statements

The cash and cash equivalents balance reflect a balance of Kshs.568,338,971 as at 30 June 2018. However, bank balances for three (3) bank accounts held at Kenya Commercial Bank were not included in the bank balances as indicated below

Particulars	Account Number	Amount Kshs.
Hospital Account	1201333008	1,143,383
Hospital Account- Medical Superintendent Mpeketoni	1211639363	65,714
Hospital Account- Medical Superintendent	1211409341	892,071
Total		2,101,168

Consequently, the accuracy and completeness of the cash and cash equivalent of Kshs.568,338,971 as at 30 June 2018 could not be ascertained.

4.2 Prior Year adjustment

The statement of cash flows indicates an adjustment of negative Kshs.27,473,470 for the year ended 30 June 2018. However, supporting details and records of these adjustments were not presented for audit verification.

Consequently, the accuracy of the statement of the cash flows for the year ended 30 June 2018 could not be confirmed.

5 Accounts Receivables

The accounts receivables balance reflects Kshs.1,789,083 as at 30 June 2018 for outstanding imprest. However, the imprest register reflected a balance of Kshs.1,830,683 while payment details report in IFMIS reflected Kshs.47,542,309 as un-surrendered temporary imprest resulting to unreconciled variances of Kshs.41,600 and Kshs.45,753,226 respectively.

Under the circumstances, the accuracy, probity and completeness of the outstanding imprest balance of Kshs.1,789,083 as at 30 June 2018 could not be confirmed.

6 Compensation of Employees

6.1 Differences between IFMIS and Financial Statements

Compensation of employees' figure of Kshs.1,037,746,524 for the year ended 30 June 2018 is supported by the IFMIS ledger with a balance of Kshs.958,393,043 leading to an unexplained difference of Kshs.79,353,481. A review of the payroll indicated that 960 employees were being paid through the IPPD system in June 2018 compared to 855 employees in the IPPD system as at 31 July 2017. However, no supporting documents were made available for audit to justify the changes in the payroll.

Consequently, the probity, accuracy and completeness of the compensation of employees of Kshs.1,037,746,524 as at 30 June 2018 could not be confirmed.

6.2 Unsupported Wages of Temporary Employees

Included in the compensation of employees' figure of Kshs.1,037,746,524 are basic wages of temporary employees totaling Kshs.47,906,798 incurred in the year under review for which the expenditure increased by Kshs.27,802,893 or 138.29% from Kshs.20,103,905 reported in the financial year 30 June 2017. However, records in respect of how the temporary employees were hired, the work for which they were hired for, terms and conditions of services were not provided for audit review. Further, muster rolls showing attendance of the casual workers were not provided for audit review to confirm the existence of the temporary employees and the various departments they worked in.

In view of the above, it has not been possible to ascertain the probity of the expenditure of Kshs.47,906,798 on casual wages as at 30 June 2018.

7 Fixed Assets

Annex 5 of the financial statements reflects cumulative fixed assets balance of Kshs.1,149,856,976 as at 30 June 2018. The comparative figure for the assets for the year ended 30 June 2017 was Kshs.905,302,155. However, the Executive maintained a fixed asset register for finance department that did not reflect values of the fixed assets. Further, it was observed that the County Executive does not have in place policies and procedures relating to asset management. In addition, fixed assets were not physically inspected on a regular basis to establish their conditions. The Executive did not also maintain a register of land and buildings recording each parcel of land and the terms on which it is held, with reference to the conveyance, address, area, dates of acquisition, disposal or major change in use, capital expenditure, leasehold terms, maintenance contracts and other pertinent management details as required by Section 136(2) of the Public Finance Management (County Government) Regulations, 2015.

In view of the above, the source, completeness, valuation and security of the non-current assets balance reflected of Kshs.1,149,856,976 as at 30 June 2018 could not be confirmed.

8 Pending Bills

Annex 2 of the financial statements reflects pending accounts payable of balance of Kshs.101,781,106. However, the schedule provided for audit did not contain details voucher numbers, local purchase/Service orders and invoices, making impossible to confirm the authenticity of the information. Further, the creditors' ledgers were not made available to ascertain the creditors' movement from Kshs.45,186,628 as at 30 June 2017 to Kshs.101,781,106 reported in 30 June 2018. Failure, to pay the pending bills in the year they relate to is likely to affect the programs for the subsequent years.

In view of the foregoing, the source, completeness, authenticity and existence of the pending bills balance of Kshs.101,781,106 as at 30 June 2018 could not be ascertained.

9 Accounts Payable – Deposits and Retentions

9.1 Unconfirmed balances

The accounts payable – deposits and retentions balance of Kshs.56,352,739 as at 30 June 2018 comprised of bank balance of Kshs.38,606,661 for deposit account number 1000242857 held at Central Bank and bank balance of Kshs.17,746,078 for gratuity account number 0030469001 held at Diamond Trust Bank. However, the Executive neither maintained a creditors' ledgers nor kept records for payables transactions. A scrutiny of retention deductions during the year under review established that Kshs.2,781,285 deducted from contractors was not remitted to the deposit bank account and was not accounted for. In the circumstances, the balances in the bank account may not correspond to the payables due. As a result, there is likelihood of paying non-existent suppliers as well as being unable to pay payables as and when they fall due.

Consequently, the accuracy, completeness and validity of the accounts payable balance of Kshs.56,352,739 as at 30 June 2018 could not be confirmed.

9.2 Unaccounted for Gratuity Account Funds

During the period under review the County Executive of Lamu made payments amounting to Kshs.51,463,055 through Diamond Trust Bank (DTB) gratuity account for pension and retirement benefits. However, payment documents were not made available for audit contrary to Section 104 of the Public Finance Management (County Government) Regulations, 2015.

Consequently the propriety of the expenditure of Kshs.51,663,055 incurred in the gratuity account as at 30 June 2018 could not be ascertained.

10 Governor's Swearing in Ceremony Expenses

During the period under review the County Executive incurred an expenditure of Kshs.2,987,580 for Governor's swearing in ceremony on 18 August 2017 from Diamond Trust Bank (DTB) gratuity account. However, no documentary evidence was made available for audit to support the expenditure incurred through imprest while the expenditure was also not reported in the financial statements. Further, the expenditure was not budgeted for during the year under review.

In the circumstances, the propriety of the Governor's swearing in expenditure of Kshs.2,987,580 could not be ascertained.

11 Use of Goods and Services

11.1 Utilities, Supplies and Services

Included in the use of goods and services figure of Kshs.382,498,286 under note 12 in financial statements is an amount of Kshs.18,226,064 relating to utilities, supplies and services.

A review of the expenditure however, revealed that an amount to Kshs.13,943,602 incurred on payment of water bills and power supply did not have appropriate supporting documents such as bills and acknowledgement receipts showing that the bills were paid.

In view of the foregoing, it has not been possible to ascertain the accountability and probity of the Kshs.13,943,602 incurred on utilities, supplies and services as at 30 June 2018.

11.2 Communication, Supplies and Services

Included in the use of goods and services figure of Kshs.382,498,286 under note 12 is an amount of Kshs.10,155,815 incurred on communication, supplies and services which in turn includes Kshs.3,125,099 relating to payment of airtime supply, courier, postage and bandwidth which was not supported with the requisite supporting documents.

Consequently, the probity of the expenditure of Kshs.3,125,099 could not be confirmed

11.3 Domestic Travel and Subsistence

The use of goods and services of Kshs.382,498,286 as reflected under note 12 to financial statements is an amount of Kshs.70,022,238 incurred on domestic travel and subsistence which additionally includes an amount of Kshs.21,259,761 which was not properly supported with necessary documents like invitation letters for seminars/workshop, attendance registers and mode of travel were not provided for audit. Further, an expenditure of Kshs.1,715,111 for air tickets was paid for unspecified journeys.

Consequently, the probity of the expenditure on domestic travel and subsistence amounting to Kshs.21,259,761 as at 30 June 2018 could not be confirmed.

11.4 Printing, Advertising and Information Supplies and Services

Included in the use of goods and services figure of Kshs.382,498,286 under note 12 is a figure of Kshs.8,191,859 incurred for printing, advertising and information supplies & services which further includes Kshs.3,127,450 which was however not accounted for since requisitions, receipts and stores records were not provided for audit scrutiny.

Consequently, the probity of Kshs.3,127,450 expenditure on printing, advertising and information supplies and services as at 30 June 2018 could not be confirmed.

11.5 Rental of Produced Assets

Included in the use of goods and services figure of Kshs.382,498,286 under note 12 to the financial statements an amount of Kshs.8,937,872 incurred on rental of produced assets. However, review of the expenditure indicated that an amount of Kshs.5,207,740 was not supported with requisitions, lease agreements and invoices.

In addition, an amount of Kshs.2,317,945 was incurred for County liaison office at Delta Corner House Nairobi as rent. However, supporting documents made available for audit indicated that the tenant was Council of Governors and not the County Executive of Lamu. This expenditure was incurred in contravention of Section 37 of the Intergovernmental Relations Act 2 of 2012 on operational expenses in respect of the structures and institutions

established in this Act which require that such operational expenses be provided for in the annual estimates of the revenue and expenditure of the National Government. It is not possible to confirm the regulation under which these payments were made.

Consequently, the propriety of the Kshs.7,525,685 incurred on rental of produced assets as at 30 June 2018 could not be confirmed..

11.6 Training Expenses

Included under training expenses of Kshs.18,206,117 as at 30 June 2018 is an amount of Kshs.3,087,600 that was not supported by invitations, attendance registers and evidence of hire of seminar venues.

Consequently, the propriety of the Kshs.3,087,600 incurred on training could not be confirmed.

11.7 Hospitality Supplies and Services

Included under hospitality supplies and services figure of Kshs.13,527,829 is an amount of Kshs.2,505,727 that was not accounted for since the payment vouchers did not have requisitions, local purchase orders, invoices and evidence of service being offered.

Consequently, the propriety of the Kshs.2,505,727 incurred on this item could not be confirmed.

11.8 Unaccounted for Specialized Materials and Services

Included under specialized materials and services figure of Kshs.76,964,270 is an amount of Kshs.56,082,967 to various suppliers for supply and delivery of pharmaceuticals drugs and non-pharmaceuticals items to health facilities within the county. Audit review and field verification of the sampled health facilities revealed that, non-pharmaceuticals supplies of Kshs.8,608,020 were not recorded in the respective health facilities stores records. Medical drugs supplies sampled of Kshs.44,783,619 were recorded in S3 cards but were not issued out to respective sections by use of serialized S11 issue notes for accountability of the medical drugs.

In the circumstances, the accountability and the propriety of the expenditure of Kshs.56,082,967 could not be confirmed.

11.9 Contracted Guards and Cleaning Services

Included under other operating expenses figure of Kshs.73,157,061 is an expenditure of Kshs.11,140,850 for provision of cleaning services and Kshs.16,080,000 for security services. The contracts for cleaning services were awarded through quotations to four (4) suppliers. However, two (2) of the suppliers were not in the list of the prequalifies suppliers. Similarly, one supplier for security services was not in the list of the prequalifies suppliers. In addition, given that the total expenditure on cleaning services and security services was Kshs.11,140,850 and Kshs.16,080,000 respectively, the Executive should have used open tender method of procurement instead of quotations.

In the circumstances, it appears the contracts were structured in a way to use quotations instead open tender contrary to Section 54 of the Public Procurement and Assets Disposal Act, 2015.

11.10 Legal Fees

11.10.1 Wasteful and Doubtful Legal Expenditure

During the financial period under review the County Executive of Lamu paid legal fees amounting to Kshs.6,095,428 for Mombasa Petition No. 1 of 2018 being part of other operating expenses of Kshs.73,157,061. The legal services were procured through restricted tendering tender number CGL/RT/PSM&ADM/011/2017-2018. Although restricted tendering was used as a procurement method, no reason was given for use of the method and how the law firm was identified. The amount was paid in advance before the cases were heard and determined and it was not clear how the cost of legal fee could be determined in advance before fee notes were issued. No reason was given for not seeking the services of the Attorney General as required by Section 43 of the County Government Act.

Consequently, the propriety of the expenditure of Kshs.6,095,428 could not be confirmed

11.10.2 Fictitious Legal Fees Payment

During the year ended 30 June 2018, the Executive paid legal fees amounting to Kshs.480,000 for Constitution Petition No. 1 of 2018. However, there was no documentary evidence of how the legal fees was arrived at and whether it was as per Advocates (Remuneration) (Amendment) Order, 2014. Further, it was not clear how the services of the Advocate were procured. No Local Service Order (LSO) was attached to the payment documents. It was therefore not clear how the advocate provided the services without contract documents. In addition, the payment was made through cash by way of imprest to an employee instead of the advocate.

In the circumstances, the probity and validity of the legal expenditure amounting to Kshs.480,000 could not be determined.

11.11 Routine Maintenance – Vehicles and Other Transport Equipment

Included under routine maintenance – vehicles and other transport equipment figure of Kshs.11,267,730 is an amount of Kshs.419,995 for repair of ambulance. However, the supporting documents indicated that there was no repair requisition or any record in the work tickets of mechanical defects. The specific repairs carried out on motor vehicle were not indicated in the Local Service Order. The mechanical status of the motor vehicle could not be established since the ambulance was said to be at the garage in Malindi at the time of audit.

Under the circumstances, the propriety expenditure amounting to Kshs.419,995 could not be determined.

11.12 Fuel, Oil and Lubricant

Included in the use of goods and services figure of Kshs.382,498,286 under note 12 is an amount of Kshs.27,396,053 incurred on fuel, oil and lubricants. However, payment documents and the fuel records made available for audit revealed that the Executive spent an amount of Kshs.30,307,390 resulting to an unexplained variance of Kshs.2,911,337 between the fuel figure reported in the financial statement and the actual expenditure on fuel supported by payment records and other supporting documents.

In view of the foregoing, it has not been possible to ascertain the propriety of the Kshs.27,797,053 expenditure on fuel, oil and lubricants as at 30 June 2018.

11.13 Routine Maintenance – Other Assets

During the year under review, the Executive repaired and furnished quarters that were to be occupied by Cuban consultant doctors at a cost of Kshs.610,000 being part of routine maintenance – other assets figure of Kshs.11,502,250. A review of the payment records and the supporting documents revealed that the payments were made in cash contrary to Section 107 of Public Procurement and Assets Disposal Act, 2015. Further, no engineer's estimates were prepared, or bill of quantities to determine the cost of the repairs done.

In addition, an expenditure of Kshs.335,000 was incurred in purchase of 10 Hospital beds at Kshs.335,000. However, no procurement documents were made available for audit to determine how the beds were procured. Further, the beds were indicated to have been received at the County Executive's Stores and issued to a private hospital.

In the circumstances, the validity and propriety of the expenditure of Kshs.11,502,250 on routine maintenance – other assets could not be confirmed.

11.14 Routine Maintenance - Vehicles and Other Transport Equipment

Included in the use of goods and services figure of Kshs.382,498,286 under note 12 is an amount of Kshs.11,267,730 incurred on routine maintenance - vehicles and other transport equipment which turn includes Kshs.5,295,352 which was not properly supported. Further, payments amounting to Kshs.3,140,553.70 (consisting of 208 transactions) were procured as low value items although the value of the goods was more than the maximum value prescribed by Section 107 of the Public Procurement and Assets Disposal Act, 2015.

In the circumstances, the accountability and the propriety of the routine maintenance - vehicles and other transport equipment expenditure of Kshs5,295,352 could not be confirmed.

12 Acquisition of Assets

12.1 Construction of Buildings

Included in the acquisition of assets figure of Kshs.244,554,822 under note 17 to the financial statements is an amount of Kshs.37,806,619 spent on construction of building expenditure. However, payment documents amounting to Kshs.3,281,768 relating to the expenditure were not made available for audit review. Further, bill of quantities and certificates of works done detailing the specific works done were equally not provided for audit scrutiny to establish how the expenditure incurred was accounted for.

Consequently, the probity and validity of the expenditure on construction of buildings amounting to Kshs.37,806,619 as at 30 June 2018 could not be confirmed.

12.2 Construction of Command Centre

During the year ended 30 June 2018, the Executive spent an amount of Kshs.11,743,840 being part of construction of buildings of Kshs.31,059,351 for construction of Command Centre. The evaluation committee observed that the firm awarded the contract did not have a valid bid bond and the contractor was a National Construction Authority Category No. 7 contractor who was approved to carry out works of up to Kshs.20,000,000 hence was not responsive. Further, Section 70(6), and 33 (2) (g) of the Public Procurement and Asset Disposal Act, 2015 were not complied with. The payment was not also supported by bill of quantities and certificate of work done.

Under the circumstances, the probity and value for money for of Kshs.11,743,840 paid to the contractors could not be ascertained.

12.3 Construction and Civil Works

During the year ended 30 June 2018, the County Government of Lamu spent an amount of Kshs.40,293,071 as conditional grant from the National Government. The Executive received the conditional grant of Kshs.200,000,000 in the financial year 2016/2017 from the national government for uplifting of Lamu County Hospital and Health facilities. The grant was disbursed twice on 19 April 2016 (Kshs.100,000,000) and on 17 March 2017 (Kshs.100,000,000) in the County Revenue Fund. However, the funds received were not released to the appropriate project bank account or special purpose account contrary to Section 74(5) of the Public Finance Management (County Government) Regulations, 2015. Part of the grant was to finance outpatient wing and maternity wing at Faza Sub County Hospital and Mpeketoni Sub County Hospital.

Physical verification of the projects established that they had stalled and no work was ongoing and the contractors abandoned the site. Bills of quantities for the projects and the original project files for the projects were not made available for audit.

Under the circumstances, it has not been possible to verify whether the payments were made for the work done.

12.4 Purchase of Vehicles and Other Transport Equipment

12.4.1 Purchase of Garbage Collection Trailers

Included in the acquisition of assets figure of Kshs.244,554,822 is an amount of Kshs.21,030,000 spent on purchase of vehicles and other transport equipment. Out of this amount, the management on 7 March 2017 spent an amount of Kshs.4,000,000 on purchase of garbage collecting trailers but the supplier delivered the trailers on 2 May 2018 nine (9) months after the local purchase order was issued contrary to Section 52 of the Public Finance Management (County Governments) Regulations, 2015.

Further, the two garbage collecting trailers were inspected by inspection committee on 16 April 2018 even before they were delivered. Only one logbook for the Trailer was made available for audit. Physical verification carried out revealed that one of the trailers was not in use and was parked resulting to wasteful expenditure of Kshs.2,000,000 contrary to Section 210(1)i of the Public Finance Management (County Governments) Regulations, 2015.

In the circumstance, the propriety of the expenditure amounting to Kshs.4,000,000 on garbage collecting trailers could not be confirmed.

12.4.2 Purchase of Governor's Official Vehicle

During the year under review, the Executive procured a Nissan patrol LE 2015 at a cost of Kshs.13,530,000 for the Governor through direct procurement. A review of the payment established that no requisition was made, no professional opinion was issued to the accounting officer pursuant to Section 84 of the Public Procurement and Disposal Act, 2015 and evaluation committee was not formed pursuant to Section 104 (b) of the Public Procurement and Assets Disposal Act.

Further, the specifications during procurement referred to a particular model of Vehicle contrary to Section 60 (4) of the Public Procurement and Asset Disposal Act, 2015. The motor vehicle purchased had a capacity of 5600 cc Contrary to Section 137 of the Public Finance Management (County Government) Regulations, 2015 which sets the limit for official vehicles purchased for use by Governors at 2600 cc for saloon cars and 3000 cc for 4 x 4. No explanation was given for the non-compliance with the quoted regulations.

Under the circumstance, the propriety of the expenditure of Kshs.13,530,000 could not be ascertain.

12.5 Purchase of Office Furniture and General Equipment

Included in the acquisition of assets figure of Kshs.244,554,822 under note 17 to the financial statements is an amount of Kshs.17,710,684 spent on purchase of office furniture and general equipment. It was however observed that an expenditure amounting to Kshs.12,269,033 did not have the necessary supporting documents contrary to Section 104 of the Public Finance Management (County Government) Regulations, 2015.

Further, some furniture was procured on 22 February 2018 for Kshs.1,652,000 and which was delivered on 7 May 2018 . This was more than thirty (30) days after the furniture were ordered contrary to Section 52 of the Public Finance Management (County Government)

Regulations, 2015 which states a local purchase order shall be valid for a period of thirty days from the date of issue. In addition, there was no documentary evidence such as issue notes availed to show how the furniture was distributed and accounted for. Procurement records that are required to be kept as per Section 68 of the Public Procurement and Assets Disposal Act, 2015 were not made available for audit.

Consequently, the propriety and validity of Kshs.7,710,684 as at 30 June 2018 could not be confirmed.

12.6 Purchase of Specialized Plant, Equipment and Machinery

Included in the acquisition of assets figure of Kshs.244,554,822 under note 17 is Kshs.15,354,060 incurred to purchase of specialized plant, equipment and machinery but for which the supporting documents however revealed the following anomalies: -

12.6.1 Purchase of Dental Chairs

An amount of Kshs.4,867,000 was incurred for purchase of two (2) dental chairs, two set of dental instruments and 1 dental laboratory equipment. The purchase was not captured in the approved procurement plan contrary to Section 50(3) of the Public Finance Management (County Government) Regulations 2015. Although restricted tendering was used as a procurement method no reason was given for the choice of the procurement.

Physical verification carried out on 25 October 2018 revealed that one of the two dental units supplied was at King Fahad hospital while the other was forwarded to Faza hospital without being received at the stores. The compressor units for the chairs had not been installed and were lying at the stores.

Consequently, it has not been possible to confirm the propriety and value for money on the expenditure of Kshs.4,867,000 incurred on purchase of dental chairs as at 30 June 2018.

12.6.2 Purchase of Patient Monitors

Included under purchase of specialized plant, equipment and machinery figure of Kshs.15,354,060 are five (5) patient monitors procured at a total cost of Kshs.4,625,000 but items procured were not in the approved procurement plan contrary to Section 50 (3) of the Public Finance Management (County Government) Regulations 2015. It was further noted that the items were procured using restricted tendering method. However, the County did not give reason for the choice of the procurement method. In addition, the supplier was not in the list of prequalified suppliers.

Further, the expenditure was charged to Other Infrastructure and civil works and hence reallocated without authority. Physical verification carried out revealed that one of the patient monitors was still at the store while S3 indicated two patient monitors in the store hence not possible to confirm the correct position.

In the circumstance, the propriety of the expenditure of Kshs.4,625,000 could not be confirmed.

12.6.3 Sporting Equipment

Included under purchase of specialized plant, equipment and machinery figure of Kshs.15,354,060 are sporting equipment procured at a total cost of Kshs.1,199,000. However, a review of the payment records indicated that although the sporting equipment were received on 26 February 2018 there is no documentary evidence availed to show how the sporting equipment was distributed.

Further, the payments were not unauthorized and were charged to membership fees and dues and subscriptions to international organization contrary to Section 53 of the Public Finance Management (County Government) regulations, 2015.

In the circumstances the accountability of the sporting equipment of Kshs.1,199,000 as at 30 June 2018 could not be ascertained.

12.7 Purchase of Certified Seeds, Breeding Stock and Live Animals

Included in the acquisition of assets figure of Kshs.244,554,822 under note 17 to the financial statements is an amount of Kshs.12,169,000 incurred on purchase of certified seeds, breeding stock and live animals out of which Kshs.9,694,000 was not accounted for. No evidence was provided to support the requisition, receiving, storage and issuances of the certified seeds purchased.

Further, included in Kshs.12,169,000 are supply of veterinary drugs amounting to Kshs.3,254,340. Although the veterinary drugs were received on 15 March 2018, they were not recorded in the stores ledger. In addition, the department of fisheries and livestock had not budgeted for the above supplies during the period under review but were charged to a default account and reported under overhaul and refurbishment of construction and buildings. The first payment was made on the basis of undated invoice and with no approved requisition from the user department.

Consequently, the probity of the expenditure of Kshs. 12,169,000 as at 30 June 2018 for purchase of certified seeds, breeding stock and live animals could not be confirmed.

13 Transfer to Other Government Entities

During the year under review, the Executive transferred Kshs.301,127,197 and another Kshs.130,957,848 to the County Assembly of Lamu for recurrent and development expenditure respectively bringing the total transfers to Kshs.432,085,042. However, the County Assembly reported in its financial statements an amount of Kshs.432,094,041 as transfers from the County Executive resulting to an unreconciled difference of Kshs.8,999.

Further, the development expenditure of Kshs.130,957,848 has not been transferred to the county assembly accounts but was paid directly to the suppliers from the County Executive development account.

Consequently, the accuracy of transfers of Kshs.432,085,042 included under transfer to other government units could not be ascertained.

14 Other Grants and Other Payments

Note 15 to the financial statements reflects a figure of Kshs.83,376,339 for other grants and other payments. Included in this expenditure is an amount of Kshs.21,474,899 spent on emergency relief and refugee assistance. However, a review of the expenditure indicated that the Executive incurred an expenditure of Kshs.22,307,179 against a budget of Kshs.24,550,000 for the same item. Payment documents examined revealed that an amount of Kshs.9,102,299 could not be accounted for.

Further, the Executive directly procured emergency relief and refugee assistance without meeting conditions set out in Section 103 of the Public Procurement and Assets Disposal Act, 2015. The contract agreement was signed only by the contractor on 23 May, 2018 without endorsement of the Executive contrary to Section 104 (d) of the Public Procurement and Disposal Act 2015. There was no waybill produced showing how the food was transported to the affected areas.

In view of the foregoing, the propriety of the expenditure of Kshs.9,102,299 on emergency relief and refugee assistance could not be confirmed.

15 Unbudgeted Expenses

A review of the expenditures in Integrated Financial Management Information System (IFMIS) revealed that an expenditure amounting to Kshs.149,472,193 was incurred through an account identified as Expenses under expenditure code 2990105. However, a review of the budget established that there was no expenditure budgeted for under this account. Further, the expenditure was not reported in the financial statements.

In the circumstances, the County incurred expenditure of Kshs.149,472,193 without authority contrary to Section 53 of the Public Finance Management (County Government) Regulations, 2015

16 Budgetary Control and Performance

During the year under review, the Executive had an approved budget of Kshs.3,019,057,968 comprising of Kshs.2,009,115,571 (66.5%) for recurrent expenditure and Kshs.1,009,942,397 (33.5%) for development expenditure. Included in the approved budget is Kshs.350,000,000 recurrent expenditure and Kshs.150,000,000 development expenditure amounting to Kshs.500,000,000 for the County Assembly. An analysis of the budget revealed that the Executive had a budget of Kshs.1,120,361,926 (37.1%) for wages and benefits for its public officers being 2.1% more than the limit set by Section 25 (1)(b) of the Public Finance Management (County Governments) Regulations, 2015. In addition the County assembly budget was Kshs.500,000,000 being 16.6% of the total budget this exceeded by 9.6%, the limit set by Section 25 1(f) of the Public Finance Management (County Governments) Regulations, 2015. In the circumstances, Section 25 of the Public Finance Management (County Governments) Regulations, 2015 and Section 107 of the Public Finance Management Act, 2012 were not complied with.

The absorption of the budget is as analysed below;

16.1 Recurrent Expenditure

Recurrent Expenditure				
Department	Budget Kshs	Actual Kshs	Under Absorption Kshs	Absorption %
County Executive	330,900,215	256,745,487	74,154,728	78%
Finance, Strategy & Economic Planning	135,337,114	97,870,231	37,466,883	72%
Agriculture & Irrigation	64,126,735	48,013,170	16,113,565	75%
Land, Physical Planning, Infrastructure, water	66,591,164	57,504,550	9,086,614	86%
Education, Gender, Sports, Youth & Social services	133,255,881	125,474,150	7,781,731	94%
Health & Sanitation	761,719,200	681,403,916	80,315,284	89%
Trade, Culture, Tourism & Investment Development	22,879,189	16,541,691	6,337,498	72%
Information, Communication & Public Participation	30,014,196	19,568,770	10,445,426	65%
Fisheries, Livestock, Veterinary & Cooperative Development	66,491,878	61,653,635	4,838,243	93%
Public Service Board	47,800,000	43,223,816	4,576,184	90%
Total	1,659,115,572	1,407,999,416	251,116,156	85%

The recurrent expenditure analysis above excludes outstanding commitments in the vote-book as at 30 June, 2018 that amounting to Kshs.127,101,532.

16.2 Development Expenditure

Development Expenditure				
Department	Budget Kshs	Actual Kshs	Variance Kshs	Absorption Kshs.
County Executive	233,800,000	11,921,215	221,878,785	5%
Finance, Strategy & Economic Planning	7,100,000	-	7,100,000	0%
Agriculture & Irrigation	58,556,015	1,179,842	57,376,173	2%
Land, Physical Planning, Infrastructure, water	206,169,673	116,100,252	90,069,421	56%
Education, Gender, Sports, Youth & Social services	83,780,441	20,933,275	62,847,166	25%
Health & Sanitation	174,539,864	63,511,285	111,028,579	36%
Trade, Culture, Tourism & Investment Development	24,100,000	2,786,128	21,313,872	12%
Information, Communication & Public Participation	11,696,166	-	11,696,166	0%
Fisheries, Livestock, Veterinary & Cooperative Development	60,200,238	1,898,940	48,301,298	2%
Totals	859,942,397	218,330,937	641,611,460	25%

The development expenditure analysis above did not include outstanding commitments as at 30 June 2018 amounting to Kshs.39,599,698.

16.3 Project Implementation

A review of the status of the projects budgeted to be implemented during the financial year under review established that projects for various departments amounting to Kshs.601,819,938 had not started/implemented in the year under review as shown below.

Department	Number of Projects	Amount Kshs.
Agriculture and Irrigation	6	39,655,655
County Executive	4	221,800,000
Education, Gender, Sports, Youth & Social Services	12	55,780,441
Finance, Strategy and Economic Planning	1	4,100,000
Fisheries, Livestock, Veterinary & Cooperative Development	15	60,200,238
Health And Public Sanitation	26	86,698,228
Ict And Public Participation	6	9,685,376

Land,Physical Planning, Infrastructure, Water	19	99,800,000
Trade and Tourism	9	24,100,000
Total	98	601,819,938

In view of the foregoing, the County residents may not have obtained value for the money or services for the funds allocated for the projects.

16.4 Revenue

The total annual revenue for the County Executive was projected at Kshs.3,019,057,968 comprising Kshs.2,476,400,000 from the national equitable share, Kshs.90,000,000 from the projected local sources, Kshs.350,162,619 as Conditional Grants and Unspent closing balances for the financial year 2016/2017 of Kshs.102,495,349. The Executive reported in the financial statements revenue amounting to Kshs.2,755,121,062 compared to Kshs.2,288,213,765 reported in the ledgers. This resulted in unexplained difference of Kshs.466,907,296 between the ledgers and the financial statements. A detailed review of the budget versus actual revenue received during the period is as shown below:

Revenue				
	Budget Kshs.	Financial Statements Kshs.	Variance Kshs.	Performance Kshs
National Government Transfers	2,476,400,000	2,476,400,000	-	100%
Local sources	90,000,000	63,437,304	26,562,696	70%
Conditional Grants	350,162,619	175,422,899	174,739,720	50%
Balance b/f from 2016/17	102,495,349	39,860,859	62,634,490	39%
Total	3,019,057,968	2,755,121,062	263,936,906	91%

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

I do not express a conclusion on the lawfulness and effectiveness in the use of public resources as required by Article 229(6) of the Constitution. Because of the significance of the matters described in the Basis for Conclusion on Lawfulness and Effectiveness in Use of Public Resources/ Disclaimer of Opinion section of my report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for my audit conclusion.

Basis for Conclusion

1 Irregular Bank Accounts

During the year under review, the Executive operated twenty-two (22) bank accounts made up of eleven (11) accounts operated in commercial banks and the other eleven (11) were

held at the Central Bank of Kenya. The bank accounts held at commercial banks six (6) were for revenue collection, one (1) was for imprest account while the remaining four (4) were expenditure accounts. Among, the bank accounts held with commercial banks were held contrary to the Public Finance Management (County Governments) Regulations, 2015 Section 82 (1) (b) which stipulates that all County Government bank accounts shall be opened at the Central Bank of Kenya except for imprest bank accounts for petty cash. No reasons were given as to why the Lamu County Executive was operating six (6) revenue accounts given cost implication and high risk of mismanagement and fraud.

In the circumstances, the County Executive during the year ended 30 June 2018 did not comply with Section 82 of the Public Finance Management (County Governments) Regulations, 2015.

2 Failure to Publish Financial Manual

During the period under review the County Treasury did not published financial manuals as required by Section 91 (1) of the Public Finance Management (County Governments) Regulations, 2015.

3 County Budget and Economic Forum (CBEF)

The County Government constituted a County Budget and Economic Forum (CBEF) on 29 June 2018 in line with Section 137 of the Public Finance Management Act, 2012. In the circumstances, it was not clear how consultation by the County Government on Preparation of County Plans, the County Fiscal Strategy Paper and the Budget Review and Outlook Paper for the county; and matters relating to budgeting, the economy and financial management at the county level as required by Section 137 of the Public Finance Management Act were done without a County Budget and Economic Forum (CBEF) during the year under review. In view of the foregoing, the County Executive breached the law.

4 Appointment of County Executive Members

During the period under review, the County Executive appointed six (6) County Executive Committee Members pursuant to Section 35 of the County Government Act, 2012. However, examination of the records and files for committee members revealed that there was no documentary evidence that four (4) out of the six (6) County Executive Committee Members had knowledge, experience and a distinguished career of not less than five years in the field relevant to the portfolio of the department to which the person is being appointed contrary to Section 35 (3) (d) of the County Government Act, 2012.

Consequently, the nomination of the committee members did not comply with the regulations.

5 Compensation of Employees

The compensation of employees' figure of Kshs.1,037,746,524 is approximately 37.7% of the total revenue of Kshs.2,755,121,062 and thus exceeded the recommended ratio of 35% stipulated in Section 25(1) of the Public Finance Management (County Governments)

Regulations, 2015. Consequently, the management is in breach of the law and the wage bill may not be sustainable unless adequate measures are put in place to contain the rising wage bill and increase collection of county own generated revenue

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

I do not express a conclusion on the effectiveness of internal controls, risk management and governance as required by Section 7 (1) (a) of the Public Audit Act, 2015. Because of the significance of the matters described in the Basis for Conclusion of Internal Controls, Risk Management and Governance section of my report, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for my audit conclusion.

Basis for Conclusion

1 Internal Controls on Expenditure

Examination of payment vouchers revealed weaknesses in enforcement of internal controls designed for ensuring effective administration of public funds. Payments vouchers amounting to Kshs.14,337,683 were paid without approval by the AIE Holder on the voucher, payments amounting to Kshs.16,230,182 were procured and paid for without requisitions from user department and the payment vouchers were not numbered. Payments for compensation of employees amounting to Kshs.958,393,043 were made without payment vouchers. Further, vote book certificate on the payment voucher did not indicate details of the approved estimate for the items, total expenditure commitments and the balance thereof. There was no evidence that the internal auditor audited expenditures incurred.

Consequently, the internal controls for expenditures were not operating in an effective way as at 30 June 2018.

2 Internal Controls on Revenue

During the financial year under review the Executive collected revenue manually in the departments of fisheries and public health. Counterfoil receipts book registers made available for audit revealed that eighteen (18) receipt books issued to nine (9) revenue collectors had not been surrendered promptly. In the circumstances, revenue collected by the receipt books could not be accounted as the revenue internal controls were not effective. Further, the Executive operated two automated systems for collection of revenue. Given that well defined backup and archiving procedures are central to data management process. It was observed that the backup policies and procedures were not adequate and this could lead to data loss.

In view of the foregoing, internal controls for receipt books and the automated revenue systems were not operating in an effective way as at 30 June 2018.

3 Cash and Bank

A review of the effectiveness of the internal controls of cash and bank established that the recording of the manual cashbook was incomplete as particulars of the payments, Voucher number, and allocation were not indicated. Further, bank reconciliations were not prepared in IFMIS but were manually done.

Consequently, the internal controls for recording of the cashbook were not operating in an effective way as at 30 June 2018.

4 Imprest Management

A review of the imprest warrants and imprest register revealed various weakness regarding management of imprest. It was noted that more than one imprest was issued to officers with long outstanding/un-surrendered imprest. However, an amount of Kshs.3,660,846 remained outstanding. The imprest remained un-surrendered contrary to Section 93(5) of the Public Finance Management (County Government) Regulations, 2015 which states that a holder of a temporary imprest shall account or surrender the imprest within seven (7) working days after returning to duty station. It was further observed that some officers were issued with additional imprests before they surrendered imprests previously issued contrary to Section 93(8) of the same regulations also states that in order to effectively and efficiently manage and control the issue of temporary imprests, an accounting officer or AIE Holder shall ensure that no second imprest is issued to any officer before the first imprest is surrendered or recovered in full from his or her salary.

In view of the above, the accuracy and completeness financial statement could not be confirmed.

As a result, the internal controls for imprest management were not operating in an effective way as at 30 June 2018.

5 Internal Audit Function

Review of the operations of the Internal Audit Department revealed that the County Executive has established an internal audit unit to oversee governance mechanisms and promote transparency and accountability in the management of resources of the County.

The internal audit function has (3) officers who report to the County Executive Committee member Finance instead of an Audit Committee. There is no approved Internal Audit Charter detailing the scope, responsibilities and purpose of the internal audit function. This is contrary to the provisions of Section 155(2) of the Public Financial Management (County Governments Regulations, 2015 which stipulate that an Accounting Officer shall ensure that an internal audit unit is facilitated with sufficient authority to promote independence and ensure broad internal coverage, and adequate consideration of audit reports. The internal audit unit lacks independence to execute its mandate. Also, the internal audit is understaffed and may not have the capacity and staff with necessary competencies to carry out the internal audit function.

6 Management of Debtors

Audit review of the E-revenue system Schedules revealed that the total outstanding land rates amounted to Kshs.451,021,657. Included in the balance were charges for the year amounting to Kshs.25,489,816. However, according to revenue summary records only Kshs.5,328,894 was collected from property rates during the financial year ended 30 June 2018. There was no evidence availed to show that the management had put in place strategies to recover the outstanding rates as provided for under Section 157(2) of the Public Finance Management Act 2015 which requires a receiver of County revenue to ensure that the revenue for which the receiver is responsible is collected or recorded and accounted for. In addition, the valuation roll had not been published through Gazette notice as required. Failure by the County Government to collect the outstanding rates impacted services delivery to the public negatively.

Responsibilities of Management and Those Charged with Governance

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 maintaining effective 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 and for its assessment of the effectiveness of internal control, risk management and governance.

In preparing the financial statements, management is responsible for assessing the ability to continue to sustain services, disclosing, as applicable, matters related to sustainability of services and using the applicable basis of accounting unless the Executive either intends to liquidate or to cease operations, or have no realistic alternative but to do so.

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.

In addition to the responsibility for the preparation and presentation of the financial statements described above, management is also responsible for ensuring that the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities which govern them, and that public resources are applied in an effective way.

Those charged with governance are responsible for overseeing the financial reporting process, reviewing the effectiveness of how the entity monitors compliance with relevant legislative and regulatory requirements, ensuring that effective processes and systems are in place to address key roles and responsibilities in relation to governance and risk management, and ensuring the adequacy and effectiveness of the control environment.

Auditor-General's Responsibilities for the Audit

My responsibility is to conduct an audit of the financial statements in accordance with International Standards of Supreme Audit Institutions (ISSAIs) 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. However, because of the matters described in the Basis for Disclaimer of Opinion section of my report, I was not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

In addition, my responsibility is to express a conclusion about whether, in all material respects, the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities that govern them, and that public resources are applied in an effective way, in accordance with the provisions of Article 229(6) of the Constitution and submit the audit report in compliance with Article 229(7) of the Constitution. I also consider internal control, risk management and governance processes and systems in order to give an assurance on the effectiveness of internal controls, risk management and governance in accordance with the provisions of Section 7 (1) (a) of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. However, because of the matters described in the Basis for Conclusion on Lawfulness and Effectiveness in Use of Public Resources, and Internal Controls, Risk Management and Governance sections of my report, I was not able to obtain sufficient appropriate audit evidence to provide a basis for an audit conclusion.

I am independent of 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



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

Nairobi

04 February 2019