

REPORT OF THE AUDITOR-GENERAL ON COUNTY EXECUTIVE OF NAROK FOR THE YEAR ENDED 30 JUNE 2017

REPORT ON THE FINANCIAL STATEMENTS

Qualified Opinion

I have audited the accompanying financial statements of County Executive of Narok set out on pages 1 to 42, which comprise the statement of assets and liabilities as at 30 June 2017, and the statement of receipts and payments, statement of cash flows and statement of appropriation: recurrent, development and 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 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, except for the effect of the matters described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects, the financial position of County Executive of Narok 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 comply with the Public Finance Management Act, 2012.

Further, as required by Article 229(6) of the Constitution, based on the procedures performed, I confirm that, except for the matters described in the Basis for Qualified Opinion and Other Matter sections of my report, nothing has come to my attention to cause me to believe that public money has not been applied lawfully and in an effective way.

Basis for Qualified Opinion

1.0 County Generated Receipts

The statement of receipts and payments reflects County own generated receipts of Kshs.1,588,036,662 which include Kshs.251,662,884 that the County Executive realized from various classes of revenue as shown in the table below:

Revenue Class	Actual Amount (Kshs)
Single Business Permit	27,833,932
Cesses	32,653,611
Markets and Trade Centre Fees	4,162,408
Plot Rates and Rent	140,357,017
Environment & Conservancy	12,700,000
Other Local Levies	11,362,940
Other Miscellaneous	21,677,276
Vehicle Parking Fees	915,700
	251,662,884

The following was observed:

1.1 House Rent

The County own generated receipts include Kshs.6,071,217 in respect of house rent. However, an examination of the housing register revealed that the County Executive did not collect rent from thirty eight (38) housing units whose total annual rent receivable is Ksh.1,086,000. Further, the revenue from another one hundred forty two (142) housing units could not be determined since the register did not indicate the rent receivable. Therefore, the accuracy and completeness of the house rent balance reflected in the financial statements cannot be confirmed.

1.2 DANIDA Health Funds

The County Executive of Narok received Kshs.8,945,000.00 as DANIDA Health Funds grant through the Exchequer during the year under review. The grants were supposed to facilitate the activities of health centres and dispensaries in the County. However, as at 30 June, 2017, the funds had not been remitted to the intended health centres and dispensaries to facilitate their operations. Delay in remitting the funds undermines the objective of supporting healthcare in the County.

2.0 Compensation of Employees

The statement of receipts and payments reflects expenditure of Kshs.3,079,485,902 in respect of compensation of employees against a budget of Kshs.2,743,928,616, implying an over expenditure of Kshs.335,557,286 or 12%. The expenditure includes Kshs.19,539,294 in respect of wages of temporary employees (casual wages) in the Ministry of Health, Mara Game rangers and other Departments. However, there was no evidence that the engagement of casual workers was done through the County Public Service Board. Therefore, the propriety of the expenditure of Kshs.19,539,294 in respect of casual wages cannot be confirmed.

3.0 Training Expenses

The use of goods and services balance under note 7 includes an expenditure of Kshs.37,337,202 on training. Out of this amount, Kshs.6,100,313 was paid to various individuals for training activities. However, the payment vouchers did not have relevant supporting documents such as training proposals, invitation letters and further local service orders were not provided for verification. Therefore, the propriety of Kshs.6,100,313 paid to individuals in respect of training could not be confirmed.

4.0 Domestic Travel

The use of goods and services figure reflects a balance of Kshs.76,824,274 that was spent on domestic travel and subsistence. Out of this amount, Kshs.5,119,275 was paid to

various staff as imprests and direct payments. However, the occurrence of the journeys could not be confirmed since relevant documents such as invitation letters and work tickets were not provided for verification. Therefore, the expenditure of Kshs.5,119,275 paid to the staff could not be accounted for.

5.0 Foreign Travel

The use of goods and services figure also reflects an amount of Kshs.16,058,113 which was spent on foreign travel and subsistence. Out of this amount, Kshs.1,153,883 was paid to various staff as imprests and direct payments. However, relevant documents were not provided for verification. Therefore, the expenditure of Kshs.1,153,883 paid to the staff could not be accounted for.

6.0 Transfers to Other County Government Agencies - Other Transfers

The use of goods and services balance in note 7 to the financial statements includes the following expenditures:

	Kshs
Communication	43,386,668
Supplies and Services	67,039,380
Routine Maintenance of motor vehicles	<u>30,050,335</u>
Total	<u>140,476,383</u>

Out of the total amount of Kshs.140,476,383, an amount of Kshs.122,251,781 was transferred to other County Executive departments and sub-counties. However, transfers amounting to Kshs.11,123,612 which in effect do not constitute expenditure, have not been supported by returns from the recipients. Therefore, the propriety of the transfers, totaling Kshs.11,123,612 in respect of communication, supplies and services, routine maintenance of motor vehicles and fuel, oils and lubricants cannot be confirmed.

7.0 Outstanding Imprest

The statement of assets and liabilities reflects outstanding imprest balance of Kshs.2,976,000 whose breakdown is provided under Note 15 to the financial statements. However, no relevant documents to support the balance have not been provided for verification. Therefore, the correctness of the outstanding imprest balance of Kshs.2,976,000 cannot be confirmed.

8.0 Fixed Assets

Annex 3 to the financial statements shows that the fixed asset balance increased from Kshs.34,021,688,145 as at 30 June 2016 to Kshs.35,720,477,129 as at 30 June 2017, being an addition of Kshs.1,698,788,984. However, although the County Executive maintained a fixed asset register, the register did not reflect all essential details such as the date of purchase, the cost or acquisition value, the serial or tag number, delivery note

number and location of the asset. In addition, the details of the assets and liabilities inherited from the defunct local authorities under the jurisdiction of Narok County have not been formally determined and taken over by the County Government. Therefore, the completeness, accuracy and existence of the balance of fixed assets of Kshs.35,720,477,129 as at 30 June 2017 cannot be confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of County Executive of Narok 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 qualified opinion.

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 Qualified Opinion section, I have determined that there are no key audit matters to communicate in my report.

Other Matter

1.0 Budgetary Analyses

1.1 Budgetary Performance

	B U D G E T			ACTUAL RECURRENT	ACTUAL DEVELOPMENT	ACTUAL COMBINED	OVER/(UNDER) ABSORPTION	%TAGE UTILIZATION
	RECURRENT	DEVELOPMENT	TOTAL BUDGET					
RECIEPTS								
Exchequer	5,808,760,000		5,808,760,000	5,705,712,796		5,705,712,796	103,047,204	98%
Transfers from other Gvt agencies	384,451,144		384,451,144	262,651,973		262,651,973	121,799,171	68%
Other Receipts	2,886,340,339		2,886,340,339	1,588,036,662		1,588,036,662	1,298,303,677	55%
TOTAL RECIEPTS	9,079,551,483		9,079,551,483	7,556,401,431		7,556,401,431	1,523,150,052	83%
PAYMENTS								
Compensation of Employees	2,720,811,916		2,720,811,916	3,079,485,903		3,079,485,903	358,673,987	113%
Use of Goods and Services	1,821,664,817		1,821,664,817	1,711,371,460		1,711,371,460	110,293,357	94%
Transfers to other Gvt Units	291,406,510	617,000,000	908,406,510	1780000	330,600,000	332,380,000	576,026,510	37%

Other Grants/transfer	849,000,000		849,000,000	639,750,222		639,750,222	209,249,778	75%
Acquisition of Assets	-	2,779,668,239	2,779,668,239	0	1,698,788,984	1,698,788,984	1,080,879,255	61%
TOTAL PAYMENTS	5,682,883,243	3,396,668,239	9,079,551,482	5,432,387,585	2,029,388,984	7,461,776,569	1,617,774,913	82%

The above analysis shows that the County Executive budgeted to receive revenue amounting to Kshs.9,079,551,483 out of which Kshs.7,556,401,431 was realized representing 83% performance. The deviation from the budget was attributed to drought and the political climate that affected the tourism industry in the country. In addition the County Executive expenditure budget totalled Kshs.9,079,551,482 out of which Kshs.7,461,776,569 was incurred representing 82% absorption due to the same reasons given above.

2.0 Pending Bills

Note 18.1 to the financial statements reflects a balance of Kshs.1,653,245,753 in respect of pending bills as at 30 June, 2017. Out of this amount, Kshs.607,612,427 was owed to suppliers of goods and services while Kshs.1,045,633,326 was owed to civil works contractors. However, the amount excluded Kshs.27,126,709 which owed to suppliers of medical utilities. Therefore, the completeness and accuracy of the pending bills balance of Kshs.1,653,245,753 as at 30 June 2017 cannot be confirmed.

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 continue to sustain services, disclosing, as applicable, matters related to sustainability of services unless the management have no realistic alternative.

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. 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's ability to continue to sustain 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 sustain 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 and business activities of the County Executive to express an opinion on the financial statements.
- Perform such other procedures as I consider necessary in the circumstances.

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 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