

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

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## REPORT ON THE FINANCIAL STATEMENTS

### Qualified Opinion

I have audited the accompanying financial statements of County Executive of Samburu set out on pages 1 to 88 , which comprise the statement of assets and liabilities as at 30 June 2018, and the statement of receipts and payments, statement of cash flows, summary statements 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 effects 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 Samburu County Executive as at 30 June, 2018 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.

### Basis for Qualified Opinion

#### 1. Variances between the Financial Statements and IFMIS Report

The financial statements for the year ended 30 June 2018 reflects various amounts and balances which are at variance with the figures shown in the IFMIS report as detailed below:

##### 1.1. Statement of Receipts and Payments

The statement of receipts and payments actual amounts of Kshs.4,382,054,653 and Kshs.4,123,498,134 are at variance with IFMIS report figures of Kshs.9,626,746 and Kshs.4,067,369,367 for receipts and payments, respectively as tabulated below:

Item Description	Amounts as per Financial Statements Figures Kshs.	IFMIS Report Figures- Kshs.	Variance Kshs.
<b>Receipts</b>			
Exchequer Releases	3,805,200,000	-	3,805,200,000

Proceeds from Domestic and Foreign Grants	158,952,815	-	158,952,815
Transfers from Other Government Entities	129,763,052	-	129,763,052
County Own Generated Receipts	224,823,905	-	224,823,905
Returned CRF Issues	63,314,881	-	63,314,881
Tax Receipts	-	9,626,746	-9,626,746
<b>Total Receipts</b>	<b>4,382,054,653</b>	<b>9,626,746</b>	<b>4,372,427,907</b>
<b>Payments</b>			
Compensation of Employees	1,556,774,999	1,792,485,454	-235,710,455
Use Of Goods and Services	1,002,350,705	1,206,927,107	-204,576,402
Transfers to Other Government Units	751,340,493	158,831,009	592,509,484
Other Grants and Transfers	109,303,460	100,939,136	8,364,324
Acquisition of Assets	703,728,477	813,000,034	-109,271,557
Other Payments	-	-4,813,373	4,813,373
<b>Total Payments</b>	<b>4,123,498,134</b>	<b>4,067,369,367</b>	<b>56,128,767</b>

The net differences of Kshs.4,372,427,907 and Kshs.56,128,767 for receipts and payments, respectively have not been reconciled or explained.

## 1.2. Statement of Assets and Liabilities

Similarly, the balances reflected in the statement of assets and liabilities as at 30 June, 2018 differs with the IFMIS report as summarized below:

Item description	Financial Statements Figures Kshs.	IFMIS Report Figures Kshs	Variance Kshs
<b>Financial Assets</b>			
Bank Balances	511,561,419	3,266,521,992	-2,754,960,573
Accounts Receivables - Outstanding Imprest And Clearance Accounts	64,343,688	113,508,961	-49,165,273
<b>Total Financial Assets</b>	<b>549,392,319</b>	<b>3,380,030,953</b>	<b>-2,830,638,634</b>
<b>Financial Liabilities</b>	-	-	-
Accounts Payables - Deposits	76,662,791	10,859,972,770	-10,783,309,979
<b>Represented By</b>			-
Fund Balance Brought Forward	240,685,797	-3,923,237,722	4,163,923,519
Surplus/deficit For The Year	258,556,519	-3,545,893,906	3,804,450,425
<b>Net Financial Position</b>	<b>499,242,316</b>	<b>3,390,841,141</b>	<b>-2,891,598,825</b>

The above differences have also not been reconciled or explained.

## 2. Misallocation of Expenditure

A review of expenditure records maintained by the County Executive revealed that payments amounting to Kshs.52,174,890.85 in respect of various expenditure items were wrongly charged to foreign travel & subsistence and training expenses instead of the correct budget items as detailed below:

Expense Description	Item Charged	Amount Kshs
Domestic travel, airtime, stationery and general expenses	Foreign Travel and Subsistence	24,864,718.00
Compensation of employees, salaries	Training Expenses	20,945,848.85
Imprests, allowances and transport	Domestic loans to individuals and Households	6,364,324.00
	<b>Total</b>	<b>52,174,890.85</b>

The above expenditure was not regularized through supplementary estimates contrary to regulation 39 of the Public Finance Management (County Government) Regulations, 2015. In the circumstances, foreign travel & subsistence and training expenses of Kshs.25,564,718 and 87,530,303, respectively which are disclosed under Note 12 to the financial statements are not fairly stated.

## 3. Unsupported Expenditure

The expenditure amounting to Kshs.4,123,498,134 for the year ended 30 June, 2018 reflected in the statement of receipts and payments includes payments of Kshs.36,919,088 in respect of various items which were not supported by payment vouchers and relevant documentation. Consequently, the validity, propriety and completeness of the expenditure amounting to Kshs.36,919,088 for the year ended 30 June 2018 could not be confirmed.

## 4. Construction and Civil Works

### 4.1. Provisions for Project Supervision and Contingency Sums

Expenditure records indicates that a total of Kshs.1,750,512 was deducted from contract sums for supervision and contingencies in respect of construction and civil works. The amount however was not supported by relevant payment vouchers and other related records. As a result, the validity and propriety of the expenditure of Kshs.1,750,512 could not be confirmed.

## 5. Use of Goods and Services

### 5.1. Utilities, Supplies and Services

Included in Note 12 to the financial statements under use of goods and services is an expenditure of Kshs.10,148,722 on utilities, supplies and services out of which Kshs.3,211,367 was paid to Kenya Power and Lighting Company for street lighting and electricity supplied to the Ministry of Public Health and Sanitation. However, the expenditure was not supported by relevant electricity bills and statements from the Company. As a result, the validity and propriety of the payments of Kshs.3,211,367 could not be confirmed.

## 5.2. Domestic Travel and Subsistence

### 5.2.1. Inadequately Supported Expenditure

Included also in Note 12 to the financial statements under use of goods and services is an expenditure of Kshs.106,919,672 relating to domestic travel and subsistence, which in turn includes an amount of Kshs.4,176,000 that was not adequately supported with relevant documents and appropriate approval as shown below:

<b>Imprest Warrant No.</b>	<b>Date</b>	<b>Description</b>	<b>Amount Kshs.</b>	<b>Remarks</b>
2519741	31 December 2017	End year party and prayer- Allamano Multi-purpose Hall	3,123,000	(i) Suppliers single sourced and paid using imprests (ii) Program of events was not provided
258189	14 May 2017	Monitoring of projects in Samburu East and community sensitization on water harvesting	553,000	(i) Imprest issued after the event. The event took place between 15 to 17 April 2017. (ii) List of projects inspected, date and location was not provided. (iii) Evidence of travel such work tickets or bus tickets not attached to surrender voucher. (iv) Community members were each paid lunch allowance of Kshs.1,500 for which identification numbers for the payees and the basis of the payment was not provided.
2519723	2 January 2018	Governor's Tour to Assess Drought in Samburu East	500,000	(i) Amount paid to 480 members of the public as lunches at a rate of Kshs. 1,000 each. Report, approval and basis for the

<b>Imprest Warrant No.</b>	<b>Date</b>	<b>Description</b>	<b>Amount Kshs.</b>	<b>Remarks</b>
		Sub-county(1-4 Dec 2017)		payment were not provided. (ii) Identification numbers for the payees was not indicated. (iii) Payment made one month after the event was carried out. (iv) No evidence was provided for expenditure of Kshs.20,000.
		<b>Total</b>	<b>4,176,000</b>	

In the circumstances, the propriety and validity of the expenditure of Kshs.4,176,000 could not be confirmed.

### **5.2.2. Expenditure on Training of ECDE Teachers and ECDE Officers**

The expenditure of Kshs.106,919,672 on domestic travel and subsistence also includes surrender of imprest of Kshs.3,992,100 issued to Moses Lenkupae vide warrant No.2523464 dated 20 December 2017 to facilitate training on competence based curriculum for ECDE teachers and ECDE officers between 6-9 January 2018 and 10-11 January 2018 respectively. However, the following observations were made:

- (i) The timetable and signed attendance list for the trainers and the trainees for the two days were not attached to the payment voucher for confirmation.
- (ii) The County Department of Education did not produce report on assessment of the impact of the training on performance for the ECDE teachers.
- (iii) Verification of supporting documents revealed that payment for hire of halls was made at a flat rate of Kshs.20,000 for trainings held Kisima Hall, Allamano Social Hall and Child Fund Hall. It is not clear how the amount paid was arrived at.

Consequently, the validity and propriety of the expenditure of Kshs.3,992,100 could not be confirmed.

### **5.3. Hospitality Supplies and Services**

#### **5.3.1. Payment to Council of Governors**

Included also in Note 12 to the financial statements under use of goods and services is an expenditure of Kshs.53,402,712 relating to hospitality supplies and services out of which an amount of Kshs.2,645,550 was paid to the Council of Governors as liaison office rent for nine months.

According to the payment vouchers provided for audit, the rent is payable on quarterly basis and totalling Kshs.3,527,400 per annum. However, no signed lease agreement between the landlord or the Council of Governors Secretariat and the County Executive was provided for audit verification. As a result, the validity and propriety of the expenditure of Kshs.2,645,550 could not be confirmed.

### 5.3.2. Procurement of Hotel/Conferencing Facilities and Catering Services

Disclosed under Note 12 to the financial statements is an expenditure of Kshs.53,402,712 relating to hospitality supplies and services. The amount includes payments totalling Kshs.1,766,592 in respect of hire of hotel facilities, conferencing and catering services. The payments were not supported with procurement records such as pre-qualification list and local service orders (LSO) and therefore it was not possible to establish how the service providers were identified and awarded the contracts. Consequently, the validity of the expenditure of Kshs.1,766,592 could not be confirmed.

### 5.4. Training Expenses

Included in Note 12 to the financial statements are training expenses totalling Kshs.87,530,303 out of which payments amounting to Kshs.5,040,240 were unsupported. No supporting documents such as invitation letters, training programs, approval letters, attendance registers, travel documents and certificates of participation were provided for audit review. Consequently, the validity and propriety of training expenses amounting to Kshs.5,040,240 could not be ascertained.

### 5.5. Motor Vehicle Insurance Costs

Included also in Note 12 to the financial statements are insurance costs totalling Kshs.151,971,474. Records indicate that the insurance costs comprised of medical insurance and motor vehicle insurance. However, insurance policy documents and valuation reports for motor vehicle insurance covers amounting to Kshs.5,306,457 as detailed below were not provided for audit verification:

Date	Payment Voucher No.	Payee	Description	Amount Kshs.
31/01/2018	1685	Native Insurance Agency	Insurance Expense for KBZ 929D, KBZ 930D and KBZ 931D	610,233
26/03/2018	2082	Ntumoh Insurance	Insurance for KBU 618T	190,895
8/5/2018	2337	Madison Insurance Company	Insurance for GVN 025A	644,929
30/06/2018	3085	Ntumoh Insurance	Insurance covers for Health Department vehicles	3,860,400
		<b>Total</b>		<b>5,306,457</b>

As a result, the validity and propriety of insurance costs of Kshs.5,306,457 could not be ascertained.

## 5.6. Specialized Materials and Services

### 5.6.1. Procurement of Drugs from Kenya Medical Supplies Agency (KEMSA)

Included in specialized materials and services expenditure of Kshs.131,684,203 under Note 12 to the financial statements is an amount of Kshs.39,953,997 paid to KEMSA for supply of medical drugs and non-pharmaceutical items as follows:

Date	Payment Voucher No.	LPO Amount Kshs.
7 February 2018	1643	6,744,436
19 January 2018	1569	9,025,299
6 June 2018	2520	13,806,212
19 January 2018	1756	5,518,833
26 April 2018	2179	4,859,217
	<b>Total</b>	<b>39,953,997</b>

However, the supplies were not supported with delivery notes and inspection and acceptance committee reports. In the absence of these records, it was not possible to establish whether the goods paid for were supplied and accounted for. As a result, the validity and propriety of the expenditure of Kshs.39,953,997 could not be ascertained.

### 5.6.2. Imprest on Livestock Vaccination/ Surveillance

Included in specialized materials and services expenditure of Kshs.131,684,203 is an amount of Kshs.594,300 relating to an imprest issued to one officer vide Imprest Warrant No.2519818 dated 26 June 2018. The imprest was meant to facilitate livestock vaccination/surveillance. However, detailed schedule of activities undertaken by each staff and complete supervisory report on the exercise were not produced for audit review. In the circumstances, the validity and propriety of the payment of Kshs 594,300 could not be ascertained.

## 5.7. Other Operating Expenses

### 5.7.1. Annual Subscription to County Public Service Board (CPSB)

Included also in Note 12 to the financial statements under use of goods and services is an expenditure of Kshs.330,385,967 in respect of other operating expenses, out of which an amount of Kshs.300,000 was paid as annual subscription for 2016/2017 to the CPSB National Consultative Forum. The payment which was made vide payment voucher No.1082 was not supported with an approved law or regulation formulated by the County Executive and approved by the County Assembly on management of subscription fees. The basis for and validity of the expenditure, therefore, could not be confirmed.

### 5.7.2. Unsupported Payment for Motor Vehicle Repair

Included also in other operating expenses of Kshs.330,385,967 is an amount of Kshs.506,650 paid to a motor vehicle garage in Maralal town vide payment voucher No. 2233 for repair of GKA 963D. However, mechanical report from Ministry of Public Works officers indicating defects and estimated cost of repair was not made available for audit review. In the circumstances, it was not possible to confirm that the expenditure of Kshs.506,650 was valid and reasonable.

## 5.8. Fuel, Oil and Lubricants

### 5.8.1. Unaccounted for Tyres

Included in Note 12 to the financial statements is an expenditure of Kshs.43,426,166 on fuel, oil and lubricants which in turn includes an amount of Kshs.2,579,000 relating to purchase of tyres. It was however observed that the management did not enter the new tyres in stores ledger to confirm receipt of the same as follows:

Payment Voucher No	Date	Payee	Amount Kshs
1289	06/12/2017	Lekos Service Station Ltd	114,000
1100	01/11/2017	Amana Services Station	645,000
549	11/10/2017	Amana Services Station	1,820,000
<b>Total</b>			<b>2,579,000</b>

As a result, the propriety of the payment of Kshs.2,579,000 in respect of purchase of tyres could not be ascertained.

## 6. Transfer to Other Government Entities

### 6.1. Payments to Samburu Water and Sanitation Company (SAWASCO)

Included in Note 14 to the financial statements on transfer to other government entities expenditure of Kshs.751,340,493 is an amount of Kshs.37,820,103 in respect of transfer of funds to the Samburu Water and Sanitation Company (SAWASCO). The amount was to cater for prioritized activities during the year such as purchase of water chemicals, repairs and maintenance, water tracking, water pipes and accessories and meters as follows:

Date	Payment voucher No.	Description	Amount Kshs.
26 June 2018	2903	Prioritized activities for Samburu Water Supply	2,615,211
04 Dec 2017	1161	Facilitation for prioritized Samburu Water Supply for 2017/2018	23,000,000
05 April 2018	2169	1st Quarter prioritized activities for Samburu Water Supply	9,204,892
28 Feb 2018	1926	Payment for 1st Quarter prioritized activities for Samburu Water and Supply	3,000,000
	<b>Total</b>		<b>37,820,103</b>

However, procurement records, delivery notes and expenditure records to support the procurement of items for the activities were not provided for audit verification.

Therefore, the validity and propriety of the payments amounting to Kshs.37,820,103 could not be ascertained.

## 7. Account Receivables - Outstanding Imprests

The statement of assets and liabilities reflects account receivables – outstanding imprests balance of Kshs.64,343,688 as at 30 June, 2018 and as disclosed in Note 22 to the financial statements. This amount is at variance with outstanding balance of Kshs.60,733,310 recorded in the imprest register. The difference of Kshs.3,610,378 was not reconciled or explained. As a result, the completeness and accuracy of the imprests balance of Kshs.64,343,688 could not be confirmed.

In addition, the management did not give reasons why the imprests totalling Kshs.64,343,688 that ought to have been surrendered or accounted for on or before 30 June 2018 remained outstanding as at the close of the financial year.

Further, a review of the list of imprest holders revealed that multiple imprests were issued to staff before they had surrendered or accounted for the imprests previously issued to them. The management by approving and issuing multiple imprests, therefore, contravened regulation 93 (3) of the Public Finance Management (County Government) Regulations, 2015.

## 8. Pending Bills

Disclosed in Annexures 2,3, 4 and 8 to the financial statements are pending bills totalling Kshs.720,082,945.16 which were outstanding as at 30 June ,2018 as summarized below:

<b>Description of Pending Bills</b>	<b>Amount Kshs</b>
Pending Account Payables	370,184,770.46
Pending Staff Payables	12,252,803.00
Other Pending Payables	302,767,434.70
From the Defunct Local Authorities	34,877,937.00
<b>Grand Total</b>	<b>720,082,945.16</b>

However, contract documents; local purchase/service orders; and invoices/certificates detailing names of the contractors/suppliers, purchase/service order numbers, invoice/certificate numbers and description of goods supplied, services provided or works done were not provided for audit review. As a result, the validity, completeness and accuracy of the pending bills totalling Kshs.720,082,945.16 could not be ascertained. Had

the pending bills of Kshs.720,082,945.16 as at 30 June 2018 been paid and the expenditure charged to the accounts for the year under review, the statement of receipts and payments for the year ended 30 June ,2018 would have reflected a deficit of Kshs.461,526,426.16 instead of the surplus of Kshs.258,556,519 now shown. It is evident that the management entered into financial commitments for which no funds were available.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of Samburu 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 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 and Basis for Conclusions on lawfulness and effectiveness in use of public resources and effectiveness of internal controls, risk management and governance sections of my report, I have determined that there are no key audit matters to communicate in my report.

## **REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES**

### **Conclusion**

As required by Article 229(6) of the Constitution, based on the audit procedures performed, except for the matters described in the Basis for Qualified Opinion and Basis for Conclusions on lawfulness and effectiveness in use of public resources and effectiveness of internal controls, risk management and governance sections of my report, I confirm that, nothing else has come to my attention to cause me to believe that public resources have not been applied lawfully and in an effective way.

### **Basis for Conclusion**

#### **1. Budget Performance**

##### **1.1. Expenditure Analysis**

In 2017/2018 financial year, the County Executive final budget was Kshs.4,228,610,747 comprising Kshs.2,838,262,266 (67%) for recurrent expenditure and Kshs.1,390,348,481 (33%) for development expenditure. Further, the summary statements of appropriation –recurrent, development and combined reflects an overall budget under absorption of Kshs.105,112,613 or 2.5% as tabulated below:

Item	Budgeted 2017/2018- Kshs.	Actual Amount 2017/2018 Kshs.	Over/(Under) Expenditure Kshs.	%age of Actual Amount to Total Expenditure
Development Vote	1,390,348,481	733,118,443	(657,230,038)	18
Recurrent Vote	2,838,262,266	3,390,379,692	552,117,426	82
<b>Total</b>	<b>4,228,610,747</b>	<b>4,123,498,135</b>	<b>(105,112,612)</b>	

The above budget performance shows that the County Executive spent Kshs.733,118,443 or 18% on development items and Kshs.3,390,379,692 or approximately 82% on recurrent items. The management therefore did not comply with Section 107 (2)(b) of the Public Finance Management Act, 2012 which requires that a minimum of thirty percent of the County Executive budget be allocated to development expenditure.

Further, the over-expenditure of Kshs.552,117,426 on recurrent vote implies that funds for development expenditure were re-allocated to recurrent expenditure for which no approval or supplementary budget was provided.

As a result, the management did not comply with the approved budget provisions as appropriated by the County Assembly.

## **1.2. Failure to Achieve County Own Generated Revenue Targets**

The County Executive of Samburu had a revenue budget from local sources of Kshs.301,234,866 for the year under review and managed to collect a total of Kshs.224,823,905 resulting in revenue shortfall by Kshs.76,360,961 or 25% of the revenue projections. No satisfactory explanation was given for the under-collection of revenue.

## **2. Land Rates and Stall Rent Arrears**

A review of the properties data maintained by the County Executive revealed accumulated arrears and penalties on properties totalling Kshs.43,716,722 as of 30 June, 2018. The amount was owed by rate payers in various centres within the County including Maralal town, Loikas, Wamba and Baragoi.

The management did not provide evidence of measures being taken to ensure that these debts were promptly collected to fund service delivery and development agenda in the County.

## **3. Acquisition of Assets**

### **3.1. Construction of Buildings**

#### **3.1.1. Construction of County Government Office Block**

Available records indicate that M/s Ole Noor General Hardware Limited was awarded a contract for construction of the County Executive office block at a contract sum of Kshs.285,427,726 on 23 April 2014 for unspecified contract period. Payments totalling

Kshs.256,799,646 and representing 96% of the contract sum had been made to the contractor as of October, 2018.

However, physical verification carried out on 31 October 2018, revealed that the construction had stalled and the contractor had abandoned the site. Incomplete works included installation of elevator, construction of parking bay, metal grills and completing roofing in some parts and fixing trusses. In this respect the County Government may not realize full value for the money paid so far to the contractor.

The management did not give satisfactory explanation for delay in completing the project which has taken over five years since commencement.

### 3.1.2. Unutilized Completed Buildings

The projects verified included five worth Kshs.29,811,362 which were found to be substantially complete but remained unutilized as detailed below:

<b>Project</b>	<b>Contract No.</b>	<b>Amount Kshs.</b>
Construction of County Public Service Board offices	SCG/T/124/2016/2017	15,436,510
Construction of Kitchen, Office & Store at Lowamara	SCG/Q/279/2016/2017	1,736,030
Construction of a Maternity block at Lesidai Dispensary	SCG/T/184/2015/2016	4,436,920
Dump site and Construction of Perimeter Walling	SCG/T/184/2015/2016	4,712,183
Construction of Social Hall at Barsolloi		3,489,719
<b>Total</b>		<b>29,811,362</b>

Consequently, the effectiveness of the expenditure of Kshs.29,811,362 already incurred on these projects could not be confirmed.

### 3.1.3. Poor Workmanship on Construction of Buildings

Disclosed in Note 17 to the financial statements under acquisition of assets is an expenditure of Kshs.165,935,077 relating to construction of buildings. The expenditure includes an amount of Kshs.2,881,758 in respect of three projects indicated below. A review of records and inspection of the three projects revealed the construction works were not done as per the specifications contained in the bill of quantities as follows:

<b>Project Name</b>	<b>Contract No.</b>	<b>Amount Kshs</b>	<b>Observations</b>
Construction of Classroom at Maralal School	SCG/Q/162/2016/2017	1,191,079	The classroom roof was painted on side. There were no gutters for stopped ends .
Fencing Work at Lolgese & Lolkunono	(SCG/Q/206/2015/16)	1,021,191	The entrance gate was poorly done and had fallen off.

Project Name	Contract No.	Amount Kshs	Observations
Canopy Extension at Suguta Marmar Health centre	SCG/Q/446/2016/17	669,488	Electrical works and lighting system work was not done.
<b>Total</b>		<b>2,881,758</b>	

As a result, it was not possible to confirm that the County Government obtained value for money on the expenditure of Kshs.2,881,758.

### 3.2. Construction and Civil Works

#### 3.2.1. Demarcation and Survey of Noonkek Group Ranch

Disclosed in Note 17 to the financial statements is an expenditure of Kshs.284,817,484 on construction and civil works. The expenditure includes Kshs.898,000 paid to M/s Lkanto Construction for beaconing of Noonkek Group Ranch. It was not clarified how M/s Lkanto was procured for the services and why the County Government incurred the expenditure given that Noonkek Group Ranch is not part of the Samburu County Government.

#### 3.2.2. Drilling and Equipping of Boreholes

The expenditure of Kshs.284,817,484 in respect of construction and civil works also includes an amount of Kshs.23,680,767 for drilling and equipping of boreholes during the year 2017/2018. According to the available records, a contract for construction of nine boreholes in Samburu West sub-county was awarded to M/s Davis and Shirliff Ltd at a contract sum of Kshs.20,158,021. An amount of Kshs.8,063,208 had been paid to the contractor as at 30 June 2018. Further, construction of eight boreholes in Samburu East sub-county was awarded to M/s Export Hydro and Pump Services Limited at a contract sum of Kshs.39,043,896.53 and by the end of 2017/2018 the contractor had been paid Kshs.15,617,558.65.

Records indicate that the scope of works included drilling of boreholes, installation of solar-power and water pumps, construction of water kiosk and supply of 10,000-litre water tanks in each of the boreholes. However, inspection of the projects in November 2018 revealed that construction of water kiosk and supply of water tanks had not been done. In addition, the contractors were not on site.

Consequently, the value for money may not be realized if the projects are not completed.

#### 3.2.3. Incomplete Works at Sulubei and Ntim Nariko Water Pans

The construction and civil works expenditure of Kshs.284,817,484 also includes an amount of Kshs.7,272,000 paid to two firms for excavation of water pans. According to the records made available, the construction Sulubei water pan in Elbarta Ward was awarded to M/s Nomad Engineering and Construction Limited at a sum of Kshs.1,114,812 which had been fully paid as at 30 June 2018. Contract for desilting of

Ntim Nariko water pan in Suguta ward was awarded to M/s Ntepes Contractors Limited at a contract sum of Kshs.7,525,452 and an amount of Kshs 6,157,188 had been paid. However, physical verification of the projects carried out in November 2018 revealed that although excavation and desilting of the water pans were done, construction of spillway and fencing remained incomplete and yet the contractors had left the sites as of November 2018.

Consequently, the County Government did not obtain value for money on the expenditure of Kshs.7,272,000 in respect of the incomplete projects.

#### **3.2.4. Incomplete Works at Seketet Women Social Hall**

The construction and civil works expenses of Kshs.284,817,484 also includes an amount of Kshs.2,379,890 paid to M/s Nomads General Contractors Limited for construction of social hall at Seketet in Poro ward.

Records indicate that the contract was awarded during the year to a firm at a contract sum of Kshs.2,379,980. However, physical inspection of the project in November 2018 revealed incomplete finishing works including window panes, flooring, ceiling, painting of the interior and soak pit which had not been done. Further, the contractor was not on site as at the time of audit.

Consequently, the County Government did not obtain value for money on the expenditure of Kshs.2,379,890 in respect of the incomplete works.

#### **3.2.5. KRA Penalties Charged to Construction and Civil Works**

Included in the expenditure on construction and civil works of Kshs.284,817,484 are payments amounting to Kshs.104,789,771 which were made to Kenya Revenue Authority (KRA). The payments to KRA were in respect of fringe benefits tax including penalties on Car Loan and Mortgage Scheme managed by the County for its staff and County Executive Committee Members. The County had failed to pay the tax on time in accordance with Income Tax Act thus resulting in the penalty payments. The management did not give justification why the taxes were paid late and thus resulting in the penalties.

### **3.3. Purchase of Motor Vehicles**

Included in Note 17 to the financial statements under acquisition of assets is an expenditure of Kshs.44,786,500 relating to purchase of vehicles and other transport equipment. The amount includes payments totalling Kshs.37,417,900 for purchase of five motor vehicles from a local motor vehicle dealer.

The management adopted pre-qualified list and contract agreement signed between the National Government supply chain department and motor vehicle dealers. However, a review of records revealed the following anomalies:

- i. There was no evidence indicating that the adhoc tender processing committee evaluated specifications for the vehicles that were required based on the adopted contract agreement.
- ii. One of the requisitions dated 20 March 2018 from the Director, Public Relation and Chief of Protocol referred to specific brand name and model contrary to the procurement law.
- iii. Tender processing committee minutes, requisitions, and inspection and acceptance committee report were not made available for audit verification.

Consequently, the validity of the expenditure of Kshs.37,417,900 on purchase of vehicles during the year could not be confirmed.

### 3.4. Purchase of Office Furniture and General Equipment

Included in Note 17 to the financial statements is an expenditure of Kshs.21,659,089 in respect of purchase of office furniture and general equipment. The expenditure in turn includes an amount of Kshs.980,000 for supply of stationery and ICT equipment as shown below:

PV No.	Date	Payee	Details	Amount Kshs.
1207	01/12/2017	Nabore Limited	Supply of stationeries	500,000
1375	13/01/2018	Techbyte Technologies	Supply of ICT equipment	480,000
<b>Total</b>				<b>980,000</b>

However, a review of records revealed that LPOs were not dated, while specifications for the items were not clearly indicated. Further, minutes of inspection and acceptance committee were not provided for verification. In addition, although M/s Techbyte Technologies was awarded one of the tenders, the firm was not in the list of the prequalified suppliers of the County. The management with regard to the latter, therefore, contravened Section 71 of the Public Procurement and Asset Disposal Act, 2015.

In the circumstances, the validity of the expenditure of Kshs.980,000 could not be confirmed.

### 3.5. Purchase of Specialized Plant, Equipment and Machinery

Included in Note 17 to the financial statements is an expenditure of Kshs.11,809,360 relating to purchase of specialized plant, equipment and machinery. According to available information, the County paid a total of Kshs.890,000 vide payment voucher No. 1999, for supply of ICT equipment and charged the expenditure to purchase of specialized plant, equipment and machinery.

However, the invoice and delivery note attached to the payment were not dated. Further, the quotations and minutes of the inspection and acceptance committee were not provided. Hence the validity of the expenditure of Kshs.890,000 could not be confirmed.

### 3.6. Purchase of Certified Seeds, Breeding Stock and Live Animals

Disclosed under Note 17 to the financial statements is an expenditure of Kshs.55,733,960 in respect of purchase of certified seeds, breeding stock and live animals. Included in the expenditure are payments of Kshs.15,078,000 for purchase of maize seeds, beans and red haricot seeds claimed to have been distributed to farmers in the County during the year under review. However, expenditure returns and signed list of farmers indicating names, location and quantity of seeds issued were not provided for verification. Further, evidence of vetting of the farmers who benefitted from the programme was not made available for audit verification.

In the circumstances, the validity of the expenditure of Kshs.15,078,000 could not be confirmed.

### 3.7. Construction of Roads

Included in the acquisition of assets under Note 17 to the financial statements is an expenditure of Kshs.79,602,755 on construction of roads, out of which payments amounting to Kshs.13,250,000 were made in respect of improvement of two roads within the County. However, examination of records indicated that the works were not done as per the bill of quantities (BQ) as shown below:

<b>PV No.</b>	<b>Description</b>	<b>Amount Kshs.</b>	<b>Observations</b>
3092	Improvement of UNCL road Ndonyo Wasin –Meuwa	2,260,000	Part of the drainage was not done to specification of the Engineer's measurement. There was no continuous grading, gravelling and murraming as shown in the Engineer's bill of measurement. However, the contractor did spot patching in some sections of the road.
2410	Improvement of UNCL road Lodungokwee –Westgate	10,970,000	Part of the drainage was not done to specification of the Engineer's measurement. There was no continuous grading, gravelling and murraming as shown in the Engineer's estimates. However, the contractor did spot patching on the road.
<b>Total</b>		<b>13,250,000</b>	

As a result, value for money on the expenditure of Kshs.13,250,000 on the roads could be confirmed.

## 4. Compensation of Employees

#### 4.1.1. Recruitment of New Employees

Samburu County Public Service Board recruited new employees during the year under review to fill various vacant positions. However, the following anomalies were noted:

- i. The staff establishment provided for audit did not indicate vacant posts for the positions filled. In addition, capacity and skills assessment and workload analysis were not carried during the year under review, to identify gaps and positions to be filled, placements and establish optimum human resource capacity.
- ii. The majority of the newly employed staff are members of the dominant ethnic community and only two are from other communities despite ethnic diversification being represented during application and shortlisting. Thus, national cohesion and diversity was not achieved in the recruitment.

#### 4.1.2. Failure to Remit PAYE on Gratuities

The County Executive paid gratuity amounting to Kshs.70,560,758 to several employees whose contracts lapsed during the year under review. However, pay as you earn (PAYE) deductions in respect of the gratuity amounting to Kshs.20,952,984 was not remitted to Kenya Revenue Authority. The management did not explain why the statutory deductions were not remitted to KRA as required, thus exposing the County to avoidable penalties and fines. Further, the unremitted tax due was not disclosed in the list of pending bills.

### 5. Purchase of Uniforms

The County Executive spent an amount of Kshs.18,751,770 on purchase of uniforms. However, the tenders appear to have been split into three procurements without justification as follows:

<b>Contract No.</b>	<b>Supplier</b>	<b>Amount Kshs.</b>
SCG/T/126/2016-17	Saimen Enterprises Limited	7,470,650
SCG/T/184/2015-2016	Nkishonai Company Limited	4,436,920
SCG/T/125/2016-17	Straight Jacket Limited	6,844,200
	<b>Total</b>	<b>18,751,770</b>

In addition, distribution list and requisition for the uniforms were not provided for audit review.

The records also indicate that additional uniforms were procured and supplied in July 2017 by M/s Straight Jacket Media Limited at a cost of Kshs.3,688,800. The payment was made on 25 January 2018 vide payment voucher No.1804. However, the uniforms had not been issued and stores records had not been updated for the consignment.

Further, inspection carried out in the stores in November 2018 revealed that the uniforms had not been issued out and were kept in store. It appears therefore that the uniforms were procured without requisitions by user departments.

The audit was conducted in accordance with ISSAI 4000. The standard requires that I comply with ethical requirements and plan and perform the audit to obtain assurance about whether the activities, financial transactions and information reflected in the financial statements are in compliance, in all material respects, with the authorities that govern them. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

## REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

### Conclusion

As required by Section 7 (1) (a) of the Public Audit Act, 2015, based on the audit procedures performed, except for the matters described in the Basis for Qualified Opinion and Basis for Conclusions on lawfulness and effectiveness in use of public resources and effectiveness of internal controls, risk management and governance sections of my report, I confirm that, nothing else has come to my attention to cause me to believe that internal controls, risk management and overall governance were not effective.

### Basis for Conclusion

#### Stores Management and Control

Stores management involves establishing the system of controls, evaluating the adequacy of the controls, reporting on the effectiveness of the controls to achieve the objectives. Purchases were made of various supplies; food and rations; medical drugs; veterinary drugs and renal unit Items but stores` records were not well maintained during the year under review as follows:

- (i) Payment Voucher No.290 dated 6 March 2018 of Kshs.1,936,120 for supply and delivery of veterinary drugs was not captured on S3 stores records as required. The records were maintained by a livestock officer who issued some of the drugs using counter S11 and had no record of the stock balance or reconciliations between the issued and the balance in the stores. In the absence of the stock control cards, the unutilized supplies could not be confirmed.
- (ii) Food and rations were supplied to the Health Department but the store records were not consistent with the physical balances verified.
- (iii) Payment Voucher No.712 dated 29 June 2018 of Kshs.1,952,000 for renal unit consumables had undated S13 attached. Stores records had discrepancies between the recorded balance and the actual physical count.
- (iv) Regular independent stock counts were not carried out. This resulted to cases of expired drugs in the health department.

As a result of the above anomalies, it has not been possible to confirm that the stores management and control systems over essential goods and supplies were effective during the year to safeguard public goods from possible wastage and loss.

The audit was conducted in accordance with ISSAI 1315 and ISSAI 1330. The standards require that I plan and perform the audit to obtain assurance about whether processes and systems of internal control, risk management and governance were operating effectively, in all material respects. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

### **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 of Samburu County Executive to sustain services, disclosing, as applicable, matters related to sustainability of services and using the applicable basis of accounting unless the management either intends 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**

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 and weakness 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.

In addition to the audit of the financial statements, a compliance audit is planned and performed 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.

Further, in planning and performing the audit of the financial statements and audit of compliance, I consider internal control in order to give an assurance on the effectiveness of internal controls, risk management and governance processes and systems 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. My consideration of the internal control would not necessarily disclose all matters in the internal control that might be material weaknesses under the ISSAIs. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Because of its inherent limitations, internal control may not prevent or detect misstatements and instances of non-compliance. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the County Executive policies and procedures may deteriorate.

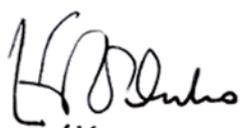
As part of an audit conducted in accordance with ISSAIs, I exercise professional judgement and maintain professional skepticism throughout the audit. I also:

- 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.
- 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 Samburu County Executive's ability to sustain its 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 sustaining its 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 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**

**28 January 2019**