

# **REPORT OF THE AUDITOR-GENERAL ON COUNTY EXECUTIVE OF TRANS NZOIA FOR THE YEAR ENDED 30 JUNE 2017**

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## **REPORT ON THE FINANCIAL STATEMENTS**

### **Qualified Opinion**

I have audited the accompanying financial statements of County Executive of Trans Nzoia set out on pages 4 to 28, which comprise the statement of assets as at 30 June 2017, and the statement of receipts and payments, statement of cash flows and summary statement of appropriation for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, except for the effects of the matters discussed in the Basis for Qualified Opinion section of my report, the financial statements present fairly, the financial position of County Executive of Trans Nzoia 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 County Governments Act, 2012.

In addition, as required by Article 229(6) of the Constitution, based on the Audit procedures performed, except for the matters described in the Basis for the Qualified Opinion and Other Matter sections of my report, I confirm that, 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 Presentation and Accuracy of Financial Statements**

##### **1.1 Summary of Fixed Assets Register**

The statement of receipts and payments for the year ended 30 June 2017 reflects acquisition of assets balance of Kshs.1,444,017,015 which is at variance with an amount of Kshs.1,011,640,231 in the summary of fixed assets register as indicated in Annex 4 to the financial statements and therefore resulting to a variance of Kshs.432,376,784 and which has not been explained or reconciled. Further, the summary fixed assets register does not include the assets inherited from the defunct local authorities under the County Government.

Under the circumstance, the accuracy and completeness of the acquisition of assets for the year ended 30 June 2017 could not be confirmed.

##### **1.2 Basic Salaries of Permanent Employees**

The statement of receipts and payments for the year ended 30 June 2017 reflects compensation of employees figure of Kshs.1,944,062,488 which includes basic salaries

of permanent employees figure of Kshs.1,067,708,804. However, the figure of Kshs.1,067,708,804 for basic salaries of permanent employees is at variance with the supporting documents figure of Kshs.1,061,064,351 resulting to a variance of Kshs.6,644,453 which has not been explained or reconciled. Under the circumstance, the validity and accuracy of basic salaries of permanent employees figure of Kshs.1,067,708,804 for the year ended 30 June 2017 could not be confirmed.

### **1.3 Basic Wages of Temporary Employees**

Included in the compensation of employees figure of Kshs.1,944,062,488 reflected in the statement of receipts and payments is basic wages of temporary employees figure of Kshs.12,964,628 which also is at variance with the supporting documents figure of Kshs.84,389,368 resulting to a variance of Kshs.71,424,740 which has not been explained or reconciled. Further, a review of personnel records revealed that casual employees have been engaged for more than three months without being confirmed as permanent employees contrary to Section 37 of the Employment Act, 2007.

Under the circumstance, the management is in breach of the law and the accuracy and completeness of basic wages of temporary employees expenditure of Kshs.12,964,628 for the year ended 30 June 2017 could not be confirmed.

## **2.0 Use of Goods and Services**

### **2.1 Rental of Produced Assets**

Note 13 to the financial statements reflects rentals of produced assets figure of Kshs.32,803,736 relating to leased offices in the sub counties. However, procurement record such as quotation, tender evaluation minutes and award minutes, acceptance letters and contract agreements were not availed for audit verification.

Consequently, the validity, accuracy and propriety of rentals of produced assets expenditure of Kshs.32,803,736 for the year ended 30 June 2017 could not be confirmed.

### **2.2 Insurance Expenditure**

Note 13 to the financial statements reflects insurance costs balance of Kshs.60,661,178 which include insurance service expenditure of Kshs.33,612,051 which were procured using restricted tendering method instead of open tender contrary to the Public procurement and assets Disposal Act, 2015. Further, pre-inspection valuation reports from the valuer and insurance policy documents for insurance services procured for Kshs.33,612,051 were not availed for audit verification.

Under the circumstance, the validity, accuracy and propriety of Kshs.33,612,051 expenditure on insurance costs for the year ended 30 June 2017 could not be confirmed.

## **3.0 Other Grants and Other Payments**

### **3.1 Scholarships and Other Educational Benefits**

Note 16 to the financial statements reflects scholarship and other educational benefits expenditure figure of Kshs.129,605,000 against the budgeted amount of Kshs.127,500,000 resulting to over expenditure of Kshs.2,105,000. However, no documentary evidence was availed for audit review to confirm whether the over expenditure was regularized in a supplementary budget as required by law.

Under the circumstance, the management is in breach of the law and the validity and propriety of scholarship and other educational benefits figure of Kshs.2,105,000 for the year ended 30 June 2017 could not be confirmed.

#### **4.0 Social Security Benefits**

The statement of receipts and payments for the year ended 30 June 2017 reflects social security benefits balance of Kshs.145,875,339 against the budgeted amount of Kshs.18,495,607 as reflected in the statement of appropriation resulting to an over expenditure of Kshs.127,329,732 contrary to Regulation 53(1) of the Public Finance Management (County Governments) Regulation, 2015 which requires that an Accounting Officer of an entity not to authorize payment to be made out of funds earmarked for specific activities for purposes other than those activities. No documentary evidence was availed for audit review to confirm whether the over expenditure was regularized in a supplementary budget as required by law.

Under the circumstance, the County Executive is in breach of the law and the validity and propriety of social security benefits expenditure of Kshs.127,329,732 for the year ended 30 June 2017 could not be confirmed.

#### **5.0 Acquisition of Assets**

##### **5.1 Proposed Construction of the Trans-Nzoia County Teaching and Referral Hospital-Kitale**

Included in the construction of buildings figure of Kshs.529,377,883 reflected in in Note 18 to the financial statements is an expenditure Kshs.182,749,350 in respect of the proposed construction of Trans-Nzoia county referral hospital. However, available information revealed that the interim certificates for works done were being issued by a consultant contrary to Section 48 to the Public Procurement and Asset Disposal Act, 2015 which requires inspection and acceptance committee to issue interim or completion certificates. It is not clear and management has not explained why the public works department was not used in supervising the project. Further, field inspection of the project revealed that the project had not been completed despite the extension of the contract period of 30 April 2017 having elapsed. Under the circumstance, the management is in breach of the law and the objectives of the project may not have been achieved and therefore the county government did not get value for money for the expenditure of Kshs.182,749,350 incurred on the proposed construction of Trans-Nzoia County Referral Hospital for the year ended 30 June 2017 could not be confirmed.

##### **5.2 Construction of Roads**

The statement of receipts and payments for the year ended 30 June 2017 reflects acquisition of assets balance of Kshs.1,444,017,015 which also includes construction of roads expenditure of Kshs.251,334,505 as disclosed in Note 18 to the financial statements out of which an expenditure of Kshs.91,676,164 in respect of purchase of fuel, oil and lubricants is not related to road construction. However, no explanation was provided for charging purchase of fuel, oil and lubricants to construction of roads.

Under the circumstance, the validity, and accuracy of construction of roads expenditure of Kshs.91,676,164 for the year ended 30 June 2017 could not be confirmed.

### **5.3 Proposed Construction of Main Kitale Bus Park and Market**

Included in acquisition of assets figure of Kshs. 1,444,017,015 is construction and civil works balance of Kshs.37,672,287 which includes Kshs. 33,922,079 payments made to a construction company on the construction of main Kitale bus park and main modern market. A review of records made available indicate that the commencement and completion dates for the project were 4 December 2015 and 16 June 2016 respectively. However, site inspection of the project during the month of February 2018 revealed that the project had not been completed and no evidence of extension of contract period was availed for audit review. Further, the project was being supervised by a consultant contrary Section 48 to the Public Procurement and Asset Disposal Act, 2015 which requires inspection and acceptance committee to issue interim or completion certificates.

Consequently, management is in breach of the law and the objective of the project may not be achieved and no value for money has been obtained on the expenditure of Kshs.33,922,079 for the year ended 30 June 2017.

## **6.0 Cash and Cash Equivalent**

### **6.1 Cash Balance**

The statement of assets reflects nil cash balances. However, the Central Bank of Kenya Development cash book availed for audit review reflects cash hand balance of Kshs.1,826,450 and which has not been disclosed in the financial statements.

Under the circumstance, the accuracy and completeness of nil cash balance as at 30 June 2017 could not be confirmed.

### **6.2 Bank Balances**

Note 22A to the statement of assets reflect bank balances figure of Kshs.62,923,879 which include various balances totalling to Kshs.770,118 that are at variance with their respective cash book balances as summarized below:

Name of Bank	Account Number	Financial Statement figure (Kshs)	Cash Book Balance (Kshs)	Variance (Kshs)
Kenya Commercial Bank	1140772694	770,118	371,318	398,800
Kenya Commercial Bank	115802113	0	1,556	(1556)
Chase Bank	0402234113002	0	9,196,576	(9,196,576)
<b>Total</b>		<b>770,118</b>	<b>9,569,450</b>	<b>(8,799,332)</b>

Consequently, the accuracy and completeness of bank balance of Kshs.62,923,879 as at 30 June 2017 could not be confirmed.

### 6.3 Irregular Opening /Maintenance of Bank Accounts

Note 22A to the financial statement reflect bank accounts maintained in Equity Bank and Kenya Commercial Bank contrary to Section 82 of the Public Finance Management (county Governments) Regulation, 2015 which require county governments to open bank accounts at the Central Bank of Kenya except for imprest bank accounts. Entities operating bank accounts outside this provision were required to comply with the regulation within six (6) months from date of commencement of the regulations which was 1 January 2016.

Under the circumstances, the accuracy, validity and completeness of bank balances of Kshs.62,923,879 as at 30 June 2016 could not be confirmed.

### 7.0 Accounts Receivable-Outstanding Imprest

The statement of assets as at 30 June 2017 reflects accounts receivables—outstanding imprests figure of Kshs.15,239,400 which include long outstanding imprest of Kshs.8,291,970 and which has not been surrendered or recovered from the salaries of the defaulting officers on the due date. Further, available information revealed that officers were issued with multiple imprest totaling Kshs.2,413,910 contrary to Section 93 of the of the Public Finance Management (county Governments) Regulation, 2015 which stipulate that a holder of a temporary imprest shall account or surrender the imprest within seven (7) working days after returning to duty station. In the event of the imprest holder failing to account for or surrender the imprest on the due date, the Accounting Officer shall take immediate action to recover the full amount from the salary of the defaulting officer with an interest at the prevailing Central Bank Rate.

Under the circumstances, the county government is in breach of the law and the propriety of accounts receivables—outstanding imprests of Kshs.15,239,400 as at 30 June 2017 could not be confirmed.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISAs). I am independent of County Executive of Trans Nzoia in accordance with ISSAIs 30 Code of Ethics. I have fulfilled other ethical responsibilities in accordance

with ISSAI and accordance with other ethical requirements applicable to performing audits of financial statements in Kenya. I believe that the audit evidence 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 discussed in the Basis for Qualified Opinion and Other Matter sections of my report, I have determined that there are no Key Audit Matters to communicate in my report.

## **Other Matter**

### **1.0 Budget Control and Performance**

#### **1.1 Budget Absorption**

During the year under review, the County Executive of Trans Nzoia had a total budget of Kshs.6,875,000,761 comprising development budget of Kshs.2,650,519,174 and recurrent budget of Kshs.4,224,481,587. Further, the total budget reflected overall under absorption of Kshs.686,164,649 or 10% as summarized below:

<b>Item</b>	<b>Budgeted Allocation 2016/2017</b>	<b>Actual 2016/2017</b>	<b>Under/Over Absorption</b>	<b>Under Absorption Rate %</b>
Development	2,650,519,174	1,924,082,146	726,437,028	27%
Recurrent	4,224,481,587	4,264,753,966	(40,272,379)	(1)%
<b>Total</b>	<b>6,875,000,761</b>	<b>6,188,836,112</b>	<b>686,164,649</b>	<b>10%</b>

The under absorption of approved budget is an indication of activities and projects in the annual work plan not implemented by the County Executive which is likely to have negative effect on goods and service delivery by the County Executive. There is need for the management to re-look at its budgetary mechanism with a view to focusing on priority areas and which enhance service delivery to the citizens of Trans Nzoia County.

#### **1.2 Development Budget**

During the year under review, the County Executive of Trans Nzoia allocated Kshs.2,650,519,174 to development projects and spent a total of Kshs.1,913,236,800 resulting to net under expenditure Kshs.737,282,374 as detailed below:

Department	Budgeted Allocation 2016/2017	Actual 2016/2017	Under/Over Absorption	Under Absorption Rate %
Agriculture, Livestock, Fisheries and Cooperative Development	120,000,000	40,874,392	79,125,608	366%
Economic Planning, Commerce and Industry	61,500,000	130,638,564	(69,138,564)	(12)%
Environment, Water and Natural Resources	265,457,642	95,184,742	170,272,900	64%
Public Works, Transport and Infrastructure	1,067,316,195	805,777,290	261,538,905	25%
Health	622,900,000	614,899,798	8,000,202	1%
Lands, Housing and Physical Planning	74,420,000	690,000	73,730,000	99%
Gender, Youth, Sports, Culture and Tourism	102,700,000	15,082,952	87,617,048	85%
Governance and Public Service Management	31,491,445	15,296,859	16,194,586	51%
Education, ECDE and Vocational Training	140,300,000	164,672,974	(24,372,974)	(17)%
Finance	115,447,348	30,119,229	85,328,119	74%
County Assembly	48,986,544	0	48,986,544	100%
<b>Total</b>	<b>2,650,519,174</b>	<b>1,913,236,800</b>	<b>737,282,374</b>	<b>28%</b>

It is clear that the County Executive did not utilize Kshs.737,282,374 or 28% of the allocated funds and hence intended objectives may have not been achieved and this may hamper service delivery to the people of the County executive of Trans Nzoia due to lack of prerequisite infrastructure.

### 1.3 Recurrent Budget

During the year under review, the County Executive of Trans Nzoia allocated Kshs.4,224,481,587 for recurrent expenditure and spent a total of Kshs.4,264,753,966 resulting to net over expenditure Kshs.40,272,379 as detailed below:

Item	Budgeted Allocation 2016/2017	Actual Expenditure 2016/2017	Under/Over Absorption	Absorption Rate %
Compensation of Employees	2,220,743,378	1,944,062,488	276,680,890	88%
Use of goods and services	2,003,738,209	1,618,378,922	385,359,287	81%

Transfers to Other Government Units	0	556,437,217	(556,437,217)	Infinity
Social Security Benefits	0	145,875,339	(145,875,339)	Infinity
<b>Total</b>	<b>4,224,481,587</b>	<b>4,264,753,966</b>	<b>(40,272,379)</b>	<b>101%</b>

From the above analysis, it is evident that the County Government overspent on transfers to other government units and social security benefits by Kshs.556,437,217 and Kshs.145,875,339 respectively. However, no evidence was provided to show that the same was regularized through supplementary estimates as required by law. The management may have under budgeted on transfer to other government entities and social security benefits and need a realistic budget in future. Therefore, the executive was in breach of the law.

### **1.5 Vehicle Parking Fees**

Included in the other revenue figure of Kshs.241,193,609 reflected in the statement of receipts and payments is vehicle parking fees of Kshs.19,115,830 against a budgeted amount of Kshs.61,763,740 resulting to under collection of revenue of Kshs.42,647,910 or 69% of the budgeted revenue. The management has not explained the reason for failure to achieve the revenue target from parking fees.

Under the circumstance, the county may not able to deliver the intended services to the citizens of Trans Nzoia County.

### **1.6 Project Implementation Status**

A total of Kshs.2,650,519,174 was allocated to ten (10) department to finance various development projects. However, project implementation reports were not availed for audit verification.

Under the circumstances, the level of completion of the projects and whether or not the project implementation was on schedule could not confirmed for the year ended 30 June 2017.

### **2.0 Control Environment**

A review of Trans Nzoia County Government application systems revealed that the entity uses Integrated Financial Management System, Jambo pay and Integrated Personnel and Payroll Database (IPPD) systems. However, the following weaknesses were noted:

- 2.1 There is no established IT steering committee at the board level to provide direction on IT matters.
- 2.2 The IT strategic plan was not in place, which could lead to IT goals not contributing to the county's strategic objectives.
- 2.3 There is no approved IT security policy in place.



- 2.4 No formally documented and approved processes to manage upgrades made to all financial/performance information systems.

Under the circumstances, failure to establish an IT strategic plan could result in IT goals not contributing to the County's strategic objectives and related costs. Lack of IT policy may also lead to lack of clear direction to maintain information security and to properly safeguard the County's IT resources. In addition, lack of disaster recovery and business continuity plans means the organization may not be able to continue with normal services in case of a disaster.

### **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's ability to continue 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 liquidate the County's 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.

Those charged with governance are responsible for overseeing the County'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 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.

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's ability to continue 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's to cease to continue to sustain 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's 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**

**16 July 2018**