

REPUBLIC OF KENYA



OFFICE OF THE AUDITOR-GENERAL

REPORT

OF

THE AUDITOR-GENERAL

ON

**THE FINANCIAL STATEMENTS OF
COUNTY GOVERNMENT OF MANDERA**

**FOR THE YEAR
ENDED 30 JUNE 2015**

REPUBLIC OF KENYA

Telephone: +254-20-342330
Fax: +254-20-311482
E-mail: oag@oagkenya.go.ke
Website: www.kenao.go.ke



P.O. Box 30084-00100
NAIROBI

OFFICE OF THE AUDITOR-GENERAL

REPORT OF THE AUDITOR-GENERAL ON COUNTY GOVERNMENT OF MANDERA FOR THE YEAR ENDED 30 JUNE 2015

REPORT ON THE FINANCIAL STATEMENTS

I have audited the accompanying financial statements of County Government of Mandera as set out on pages 7 to 98, which comprise the statement of financial assets as at 30 June 2015, and the statement of receipts and payments, statement of cash flow, summary statements of appropriation (recurrent and development) and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 (4) of the Constitution of Kenya Section 8 of the Public Audit Act, 2003. 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.

Management's Responsibility 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.

The management is also responsible for the submission of the financial statements to the Auditor-General in accordance with the provisions of Section 7 of the Public Audit Act, 2003.

Auditor-General's Responsibility

My responsibility is to express an opinion on these financial statements based on the audit and report in accordance with the provisions of Section 9 of the Public audit Act, 2003 and submit the audit report in compliance with Article 229(7) of the Constitution. The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). Those Standards require compliance with ethical requirements and that the audit be planned and performed to obtain reasonable assurance about whether the financial statements are free from material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation

and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence obtained is sufficient and appropriate to provide a basis for my adverse audit opinion.

Basis for Adverse Opinion

1. Accuracy and Completeness of the Financial Statements

The financial statements presented for audit had various unreconciled balances as detailed below:-

Items	Amount as per Financial Statements	Amount as per Appropriation	Variance (Kshs)
Total Exchequer Releases	7,813,822,143	4,109,530,543	3,704,291,600
Proceeds from Domestic and Foreign Grants	12,440,000	-	12,440,000
Compensation of Employees	1,264,143,425	1,152,259,591	111,883,834
Use of goods and services	2,102,169,723	2,232,858,458	(130,688,735)
Other grants and transfers	462,527,540	507,810,320	(45,282,780)
Total	11,655,102,831	8,002,458,912	3,652,643,919

Further, the statement of appropriation reflects actual on comparable expenditure of Kshs.9,137,990,151 while the statement of receipts and payments as at 30 June, 2015 indicates an expenditure of Kshs.9,073,902,470. The resultant difference of Kshs.64,087,681 has not been explained or reconciled.

In the circumstances, the accuracy and completeness of the financial statements for the year ended 30 June 2015 could be ascertained.

2. Fixed Assets Register

Annex 6 to the financial statements reflects a summary of fixed assets amounting to Kshs.561,403,656.00 as at 30 June 2015. However, the statement of receipts and payments indicates acquisition of assets worth Kshs.5,128,874,102 during the year under review. The resulting difference of Kshs.4,567,470,446 has not been explained. Further, the official list of assets inherited from the defunct local authorities and other government departments with their values have not been incorporated or disclosed.

In addition, the assets register was not made available for audit review to ascertain the balances and make-up of the fixed assets disclosed. Consequently, it has not been possible to ascertain the validity, completeness and accuracy of the fixed assets balance of Kshs.561, 403,656.00 as at 30 June 2015.

3. Construction of Mandera Roads to Bitumen

During the year ended 30 June 2015, the County Government of Mandera awarded capital projects amounting to Kshs.2,437,195,172 for the construction of Mandera roads to bitumen standards. However, the following observations were made:-

- (i) No contract documents were made available for audit review since they were alleged to have been taken by public procurement and oversight authority for review.
- (ii) The validity of the tenders and contract period of five (5) months to expiry 35% of the total contract sum of Kshs.858,821,831 paid to the contractors could not be confirmed. Further, there was slow progress of works and the completed phase had been damaged by the rains and vehicles, which may lead to price variations hence overpricing the projects.

In view of the foregoing, it has not been possible to confirm the construction of the roads worth Kshs.2,437,195,172 in accordance to specifications and standards.

4. Purchase of Land

During the financial year under review, the County Government purchased 10 parcels (plots) of land (Mandera Township- BLOCK 3/23, BLOCK 3/26, BLOCK 3/27, BLOCK 3/30 and BLOCK 3/13) at a cost of Kshs.20,000,000. However five (5) copies of the title deeds were attached to the payment voucher.

The county officials alleged that Block 3/13 was composed of six (6) plots but it had not been sub divided into six (6) plots as alleged. Also the developer on site during physical verification was unable to identify the beacons physically thus making it difficult to confirm the existence of ten (10) plots the County Government bought. Further, a road of six meters existed between Block 3/13 and Blocks 3/23, 3/26, 3/27 and 3/30 which the county surveyor presented a sketch of the alleged alterations but confirmed that they have not been registered with the lands department.

Under the circumstances, it has not been possible to confirm ten (10) plots bought by the County Government and whether the county got value for money in the transaction.

5. Unaccounted Single Sourcing of Ambulance Hire

Examination of payment vouchers relating to hire of ambulance revealed that Kshs.40,171,759.00 was used for hire of six (6) ambulance services to be stationed at Mandera county at a price of Ksh.600,000 per month per Ambulance. The lease period

commenced on 14 June 2014 for a renewable period of one year. However, the Kenya Red Cross Society, the firm which provided the ambulance services was not prequalified to provide hire of ambulance services to the County Government.

In the circumstances, it has not been possible to confirm that the ambulance services were obtained from the supplier through competitive bidding and that the County Government got value for money from the transporter.

6. Pending Bills

Pending bills relating to both recurrent and development totaling to Kshs.2,572,789,686 were not settled during the period but were instead carried forward to 2015/2016. Failure to settle bills during the year to which they relate distorts the financial statements for the year and adversely affects the provision for the subsequent year to which they will be charged. Further, supporting documents for the pending bills such as invoices, contract numbers and project status were not provided for audit review. As a result, the validity and accuracy of the pending bills of Kshs.2,572,789,686 could not be confirmed as at 30 June 2015.

7. Irregular and Doubtful Mileages

The County Assembly of Mandera paid Kshs.51,721,449 to Members of the County Assembly in respect of mileage claims during the period under review. However, the mileage claims were not supported with copies of the motor vehicle logbooks and work tickets used to ascertain the ownership and number of kilometers covered respectively; Expenditure for attending meetings outside the county and alleged travels were neither supported with the programs, invitation letters nor work tickets/ air tickets; some of the payment schedules requesting for the payment of the mileage allowances did not indicate the account details of some of the Assembly Members and therefore it was not clear how the payments were made to the payees.

Under the circumstances, the validity of the mileage claims of Kshs.51,721,449 paid to the MCA's could not be confirmed as at 30 June 2015.

8. Unsupported Training Expenses

An amount of Kshs.4,017,125 was used by County Assembly of Mandera for training expenses during the period under review. However, the payments were not supported with invitation letters, training programs, list of participants who were trained and mode of transport used was not indicated contrary to the Government Financial Regulations and Procedures and the Public Finance Management Act 2012.

As a result, it has not been possible to confirm that the amount of Kshs.4,017,125 constituted a proper charge against public funds for the year ended 30 June 2015.

9. Unsupported Expenditure Goods and Services

During the financial year under review, the County Assembly of Mandera made payments totaling Kshs.9,063,044 in respect of goods and services. However, the payments were not supported with invoices, receipted bills, L.P.Os/L.S.Os as required. Under the circumstances, it has not been possible to ascertain the propriety of the expenditure of Kshs.9,063,044 as at 30 June 2015.

10. Ward Fund Expenses

The County Assembly paid Kshs.24,000,000 to MCAs as ward fund expenses for various months. However, ward offices did not maintain cash books, cheque books and muster rolls to confirm the daily attendance of the staff. Further, statutory deductions were not made from the worker's salaries and remitted to the relevant bodies.

In view of the foregoing, the ward fund expenditure of Kshs.24,000,000 remains unaccounted for.

Adverse Opinion

Because of the significance of the matters described in the Basis for Adverse Opinion paragraph, the financial statements do not present fairly, the financial position of the County Government of Mandera as at 30 June 2015, and of its financial performance and its cash flows for the year then ended, in accordance with the International Public Sector Accounting Standards (Cash Basis) and do not comply with the Public Finance Management Act, 2012.

Other Matter

(i) Budget Performance Analysis

Item	Actual 2014/2015 Kshs.	Budgeted Allocation 2014/2015 Kshs.	Absorption Rate %	% of Total Expenditure
Development for 2014/2015	4,134,153,472.90	5,555,773,117	74%	35%
Development for 2013/2014	183,181,099.10	183,181,099.10	100%	02%
Recurrent 2014/2015	4,820,655,579	5,399,238,296	89%	41%
Pending Bills	2,572,789,685.57		-	22%
Total	11,710,779,836.57	11,138,192,512	-	-

However,

- a) Review of the budget performance shows that the County spent Kshs.4,317,324,572 on development expenditure which is 37% of total expenditure which is above the recommended 30% of the total expenditure of the County.
- b) The expenditure on the development vote of Kshs.183,181,099.10 relates to payments made to contracts engaged to implement 2013/2014 projects which were rolled over to the financial year 2014/2015.
- c) County Government had pending bill of Kshs.2,572,789,685.57 which were not settled by the end of the financial year 2014/2015 but carried forward to 2015/2016.

(ii) Revenue Analysis

The County realized a shortfall in revenue collection by Kshs.163,556,350 on revenue streams from local services.

The County received exchequer releases in excess of the budgetary allocation by Kshs.2,276,192,574 and also received Kshs.12,440,000 as proceeds from Domestic and Foreign Grants which was not budgeted for.

Item	Budget Kshs.	Actuals Kshs.	Over Kshs.	Under Kshs.
Proceeds from Domestic and Foreign Grants	-	12,440,000	12,440,000	-
Exchequer Releases	6,385,723,117	7,813,822,143	2,276,192,574	-
Other Receipts	251,285,781	87,729,431	-	163,556,350

(iii) Cash and Cash Equivalents

An audit of the cash books maintained at Mandera County Treasury revealed that the cash books were not properly maintained. They were not balanced and checked by a Senior Officer on a daily basis.

In the circumstances, the accuracy and authenticity of the cashbooks could not be ascertained.

(iv) Integrated Personnel and Payroll Database System

Ninety two (92) unauthorized users accessed the system in the month of June 2015 and made some changes to payroll. Further, three (3) officers had incorrect engagement code yet the IPPD captured them.

In addition, two (2) officers on contract had no copies of contract agreement in their personal files as required. In the month of July 2014 three (3) officers had their basic salary arrears amounting Kshs.167,232.85 effected on their payroll without supporting documents and one (1) officer had in invalid job group captured. Two (2) underage

officers had been employed below the statutory age of eighteen years without explanation. The County also lacked Human Resource Manual as schemes of service leading to recruitment of unqualified staff. Analysis of the payroll data revealed six (6) employees earned net salaries that were less than third ($\frac{1}{3}$) of their basic pay during the month of May 2015 contrary to Government regulations made by the Ministry of State for Public Service Circular Ref. No.DPM 23/5A Vol.XVIII/(55) dated 25 September 2008, which prohibits officers from over committing their basic pay.

In view of the foregoing, the accuracy and propriety of the employee compensation could not be confirmed as well as optimal utilization of human resources. My opinion is not qualified in respect of these matters.



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

Nairobi

06 September 2016