REPUBLIC OF KENYA

REPORT

OF

THE AUDITOR-GENERAL

ON

THE FINANCIAL STATEMENTS OF KITUI COUNTY GOVERNMENT

FOR THE SIXTEEN MONTHS ENDED 30 JUNE 2014

REPORT OF THE AUDITOR–GENERAL ON KITUI COUNTY GOVERNMENT FOR THE SIXTEEN MONTHS ENDED 30 JUNE 2014

REPORT ON THE FINANCIAL STATEMENTS

I have audited the accompanying financial statements of Kitui County Government set out on pages 8 to 23, which comprise the statement of financial assets for the sixteen months ending 30 June 2014, and the statement of receipts and payments, statement of cash flows, summary statement of appropriation for the period 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 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 4 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 (2) of the Public Audit Act, 2003 and submit the report in accordance with Article 229 (7) of the Constitution of Kenya. The audit was conducted in accordance with International Standards on Auditing. 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 misstatement.

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 Government'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 opinion.

Basis for Adverse Opinion

1. Accuracy and Completeness of the Financial Statements

(i) Separate Financial Statements

The County Government of Kitui did not prepare and submit for audit separate annual financial statements in respect of County Executive and County Assembly as required by section 163. (1) of the Public Finance Management Act 2012. Although, the County Treasury prepared combined financial statements for the County Government, no separate financial statements were prepared for the County Executive and County Assembly. It was therefore, not clear how the balances reflected in the combined financial statements were obtained.
In the circumstances, the county treasury of Kitui did not comply with the provisions of the Public Finance Management Act, 2012.

(ii) Unsupported Expenditure

The financial statements cover a period of sixteen (16) months ending 30 June 2014. However, the figures for the first four months ended 30 June 2013 were not supported by expenditure schedules and as such could not be confirmed.

(iii) Understated Revenue

The statement of receipts and payments reflects Kshs.5,103,096,075 as revenue for the 12 months ended 30 June 2014.
However, the total revenue for the period is Kshs.5,103,696,075 resulting to an understatement of Kshs.600,000. The understatement of Kshs.600,000 has not been explained.

(iv) Use of Goods and Services

The statement of receipt and payments reflect an expenditure of Kshs.831,990,052 for the use of goods and services as at 30 June 2014. However, the expenditure was not supported with any expenditure schedules. No ledgers were availed for audit verification.

In the circumstances, the propriety of the expenditure amounting to Kshs.831,990,052 for use of Goods and services for the sixteen months ended 30 June 2014 could not be confirmed.

(v) Compensation of Employees

Included in the compensation of employee balance of Kshs.1,924,708,699 is unsupported expenditure of Kshs.1,166,801 in relation to pension and other social security contributions. In the absence of the supporting ledgers and expenditure schedules, the accuracy and authenticity of the expenditure of Kshs.1,166,801 could not be confirmed as at 30 June 2014.
In the circumstance, the accuracy and completeness of the financial statements for the year ended 30 June 2014 could not be confirmed.

2. Acquisition of Assets

Included in the acquisition of assets balance of Kshs.783,751,899 as at 30 June 2014 in the statement of receipts and payments is an amount of Kshs.140, 089,772 in relation to construction and civil works, purchase of office furniture and general equipment, purchase of ICT equipment, research, studies, project preparation, design and supervision and rehabilitation of civil works whose expenditure could not be confirmed for lack of supporting schedules.
Further, assets acquired altogether amounting to Kshs.7,283,500 were erroneously classified under use of goods and services. In addition, the County Government had not taken over the assets and liabilities of the defunct local authorities in its area of jurisdiction from the Transition Authority.
Consequently, the reported assets acquisition balance of Kshs.783,751,899 as at 30 June 2014 could not be confirmed.

3. Other Grants and Payments

Included in the grants and other payments balance of Kshs.186,561,001 as at 30 June 2014 is an amount of Kshs.2,461,000 being transfers to Pro-poor programme not supported by expenditure schedules.
Consequently, the expenditure of Kshs.2,461,00 could not be confirmed as a lawful charge to public funds as at 30 June 2014.

4. Cash and Cash Equivalents

The statement of financial position reflects cash and cash equivalents balance of Kshs.1,743,765,123 as at 30 June 2014. However, during the period under review, the County Government of Kitui continued to collect revenue and banking it in the accounts of the defunct local authorities contrary to the National Treasury guidelines. Further, a total of Kshs.7,158,322 was collected and banked in the defunct local authorities' bank accounts of which Kshs.5,762,456 was withdrawn without proper county authorization and spent on undisclosed activities. In addition, there was an under banking of revenue amounting to Kshs.12,191,016 between May 2013 and April 2014. As at the time of the audit, an amount of Kshs.21,697,669 held in the LATF account of the defunct County Council of Kitui had not been transferred to the County Government Revenue Account. This is an indication of lack of proper controls as regards the management of cash collections.

In view of the foregoing, the cash and cash equivalents balance of Kshs.1,743,765,123 as at 30 June 2014 could not be confirmed as fairly stated.

5. Overpaid Salaries and Advances

The County Government over paid salary amounting to Kshs.734,297 to seven (7) officers contrary to the remunerations set by the Salaries and Remunerations Commission (SRC). Further, fifty six (56) members of the county Assembly were given salary advance amounting to Kshs.2,520,000 recoverable as from February 2014. However, no recoveries had been made from both the overpaid salaries and advances as at June 2014.

6. Irregular Procurement of Motor Vehicles

The Kitui County Government procured three (3) motor vehicles at a cost of Kshs.27,840,000 from a supplier who was not in the list of pre-qualified suppliers for negotiated running contracts of the Government. The County used direct procurement method instead of open tender system.

In the circumstance, it was not possible to ascertain the propriety of the amount of Kshs.27,840,000 spent on the procurement of motor vehicles.

Adverse Opinion

In my opinion, because of the significance of the matters discussed in the Basis for Adverse Opinion paragraph, the financial statements do not present fairly the financial position of Kitui County Government for the sixteen months ending 30 June 2014 and of its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards, the Public Finance Management Act, 2012 and does not comply with the County Government Act, 2012.

Emphasis of Matter

I draw your attention to the following financial improprieties noted during sixteen months ending 30 June 2014.

(i) Irregular Staff Recruitment

The County Government of Kitui recruited three senior officers without following proper recruitment procedures. The said officers did not apply for the posts; they were not shortlisted, or interviewed as required. They included the Chief Officer for Trade, Industry and Cooperative, Deputy Director for Trade, Industry and Cooperatives and Deputy Chief Officer Finance.

The recruitment process should be fair and on merit so that equal opportunity is given to all Kenyans interested in the position and for the County Government to access competent staff compliment.

(ii) Internal Audit Committee

During the period under review, the County Government of Kitui had not established the internal audit committee as required under the Public Finance Management Act, 2012. The internal audit department had only two (2) staff who are considered inadequate in relation to the volume of work and risk levels.

My opinion is not qualified in respect of these matters.

Edward R. O. Ouko CBS,
<u>AUDITOR-GENERAL</u>

Nairobi

10 July 2015