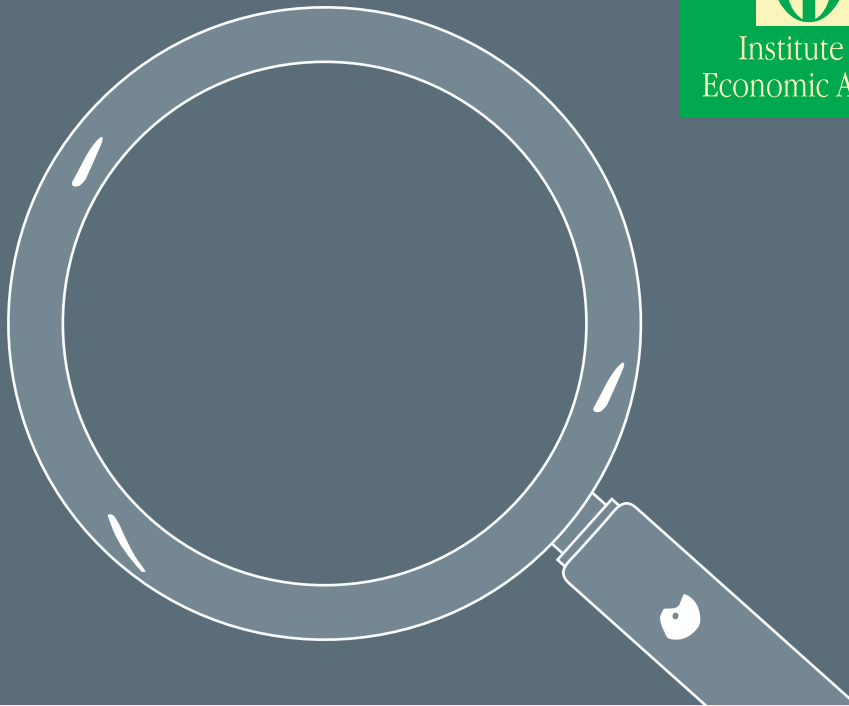




Institute of
Economic Affairs



Analysis of the Auditor General's Reports on the Financial Statements of the Executive and County Assembly of Nyamira County

2016/2017 - 2017/18 Financial Years



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1. Introduction

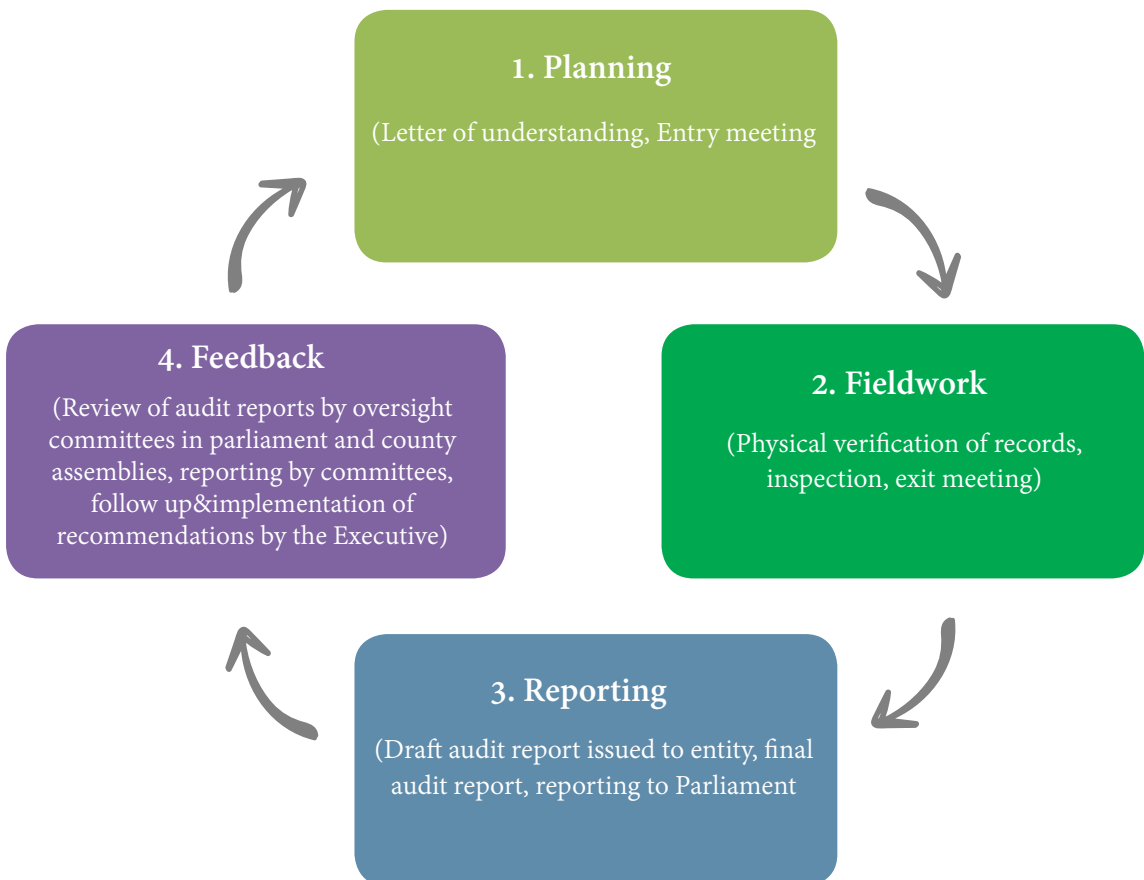
Each year the government sets aside funds for the performance of different functions. Execution of these functions is carried out by the three arms of government and various public-funded agencies. The Office of the Auditor General is established under Article 229 of the Constitution of Kenya 2010, to undertake audits and confirm all public funds are spent **lawfully** and **effectively**.

What is an Audit?

- An audit is the independent examination of an entity's spending to confirm fairness and accuracy of transactions
- Audits are conducted to confirm whether public funds are spent lawfully and effectively

How is the Public Audit Process Conducted in Kenya?

The public audit process is illustrated below:



2. Possible Audit Reports

An audit report is the written opinion of the Auditor, regarding an entity's financial statements¹. The following are the four opinions that can be issued by the Auditor:

Opinion	Meaning
Unqualified	This is a clean opinion. It means the financial statements represent a true and fair view of the entity's spending
Qualified	This opinion is issued where the Auditor finds the statements contain some errors ² which are significant ³ but not widely spread ⁴
Adverse	This opinion is issued where there are errors; both significant and widely spread across the financial statements.
Disclaimer of Opinion	This is issued where the Auditor is unable to form an opinion because sufficient audit evidence was not provided. The lack of evidence implies statements could contain errors both significant and widely spread.

What is an Audit Query?

An audit query is a question posed by the Auditor regarding unlawful transactions identified during an audit.

What does an Audit Query include?

It highlights the **nature of the unlawful spending**, the **amount questioned** and the **consequences** of the action.

¹The term financial statements are defined under key terms on page 14

²Often referred to in audit language as misstatements

³In audit terms-significant errors are said to be material

⁴This refers to the pervasiveness of the misstatements

3. Nyamira County Executive

What was the audit report/opinion of the Nyamira County Executive?

The table below summarises the audit opinion for Nyamira County Executive

Financial Year	Audit Opinion
2016/2017	Adverse Opinion
2017/2018	Qualified Opinion

What were some key audit queries for the County Executive of Nyamira FY 2016/17?

The table highlights some of the key audit queries for Nyamira County Executive for the Financial Year 2016/17.

No.	Queries	Details	Amounts Queried in KES.
1.	Inaccuracies in financial statements-bank reconciliations	The balances reflected in bank reconciliation statements differ from financial statement balances. Varying amounts in the retention, development and mortgage accounts vs financial statements.	56,794,209
2.	A decline in local revenue	County revenues from various sources declined sharply in the year and no explanation was provided.	27,226,638
	No collection of local revenue	Collection of target revenue was 36% lower. No explanation was provided by management for the underperformance.	71,768,108
	Failure to automate revenue collection	Failure to automate local revenue for various sources like the Bus Park, single business permits and market fees, which has increased risk for revenue leakages.	Unknown amounts
3.	Outstanding imprests	Outstanding imprests by a staff member totalling KES 615,863 as of 30 June 2017. Some of this was subsequently surrendered (KES 492,605) but the balance was still pending in February 2018	123,158
4.	Pending bills	Failure to clear pending bills that go back to year 2013/14.	205,040,544
5.	Irregular payment of Council of Governors	Payments were not approved by the County Assembly and not budgeted. The Council of Governors Budget is funded by the National Government.	12,500,000
6.	Unaccounted fuel costs	Payment vouchers for fuel, oil and lubricants did not include documents such as fuel registers, work tickets and detail orders.	2,943,060
7.	Advance payment	Payment was advanced in 2017, but by January 2018, work had not started yet the entire amount had been paid to the contractor.	10,138,500

8.	Re-allocation of funds without the approval of the County Assembly	The funds were not approved for re-allocation to other departments, charged for the wrong vote and also not budgeted.	15,482,527
9.	Purchase of motor vehicles	No quotations were invited for procurement of vehicles, management indicated the models of the vehicle's contrary to the law, circular from supplies had also expired, logbooks for vehicles were not availed for review.	29,654,600
10.	Stalled project-Doctors Plaza	Payment for the project was under review yet the project stalled in the 2015/16 financial year. Verification of the project in January 2018 shows the project was abandoned at the first-floor level.	13,257,183.45
11.	Employees cost	Compensation of employees was 39.6%, almost five per cent above the set limit of 35%.	1,927,809,441
12.	Payments for culverts and drainage works	Physical verification of culverts at Bokimo-Masare road in Banyamatuta ward shows it was poorly installed. The culverts were washed away by rain and the county did not get value for money.	9,969,272
13.	Procurement of event management services	The Department of Youth, Gender, Sports and Cultural Services did not follow due process in the procurement of events management services.	3,999,860

Nyamira County Executive FY 2017/2018

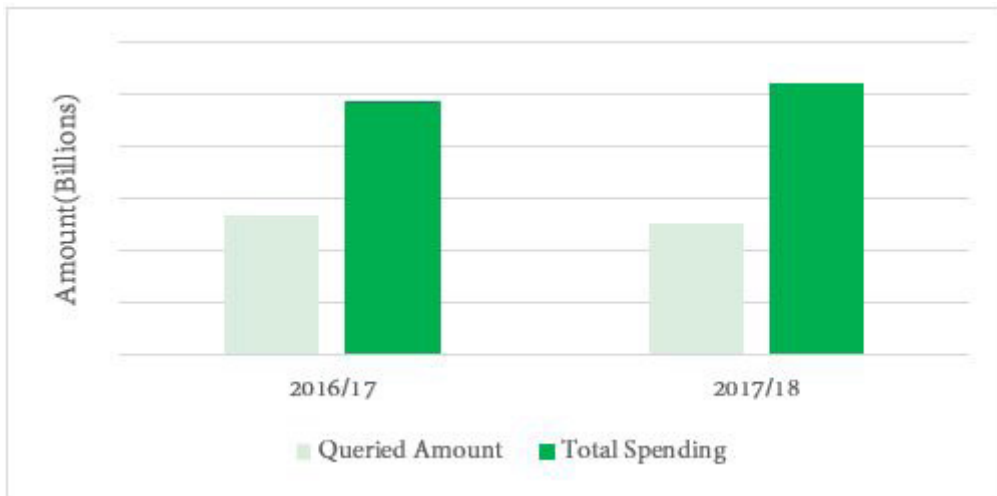
The table highlights some of the key audit queries for the Nyamira County Executive for the Financial Year 2017/18.

No.	Queries	Details	Amounts Queried in KES.
1.	Unconfirmed pending bills	Contract documents, LPO's/service orders, invoices and schedules detailing the names of contractors, invoice numbers and description of goods, services or works were not provided for review.	347,696,209
2.	Construction of Manga Stadium	Bill of quantities was not provided for audit review. The construction was incomplete despite the contract having expired in December 2015. The contractor was paid 70% of the money despite works were about 60%.	44,138,500
3.	Incomplete ECD centres and Youth Polytechnics	A total of 83 projects started during the 2015/2016 financial year remain uncompleted.	234,187,055.25
4.	Under expenditure on transport, roads and public works budget	The County Executive failed to utilize 44% of the department budget during this financial year.	316,117,251.50
5.	Purchase and installation of a laundry machine	The county procured a laundry machine which, upon verification, had a faulty AC drive; the machine was not in use	8,500,000

6.	Purchase of five ICU ventilators	The county purchased five ICU ventilators in the 2016/2017 financial year. Machines were not used due to a lack of skilled staff to operate the equipment.	16,174,450
7.	Inaccurate financial statements	Variances between the financial statements of County Own Generated Receipts, Returned CRF issues, and Exchequer releases and IFMIS report figures.	3,196,280,321
8.	Construction and completion of office blocks	Construction works were far behind schedule given the contractor had taken four and a half months on site. No work had been certified and no payment had been made to the contractor as of 16 October 2018.	36,072,230
9.	Automation of revenue collection	No clear explanation was provided for failure to automate revenue collection.	Unknown
10.	Single Business Permit	Low collection of business permit revenues. No substantive register of listing and profiling businesses to determine revenue due.	24,109,734

What was the amount queried in relation to total expenditure?

- **2016-2017** : 55% of the total expenditure was queried; equivalent to KES 2.7 billion
- **2017-2018**: 48.1% of the total expenditure was queried; equivalent to KES 2.5 billion



4. What could have been the best use of the questioned amount? (Opportunity Costs)

Any misappropriated funds could have been put into meaningful use to give the people of Nyamira County, better services and achieve greater value.

The following are examples of funds that could have given the population better value:

a) Youth Education

The County Executive used KES 234,187,055.25 in the FY 2016/2017 towards ECDE and polytechnics. The ECDE classes and polytechnics were not built and the mone unutilised. This was recorded as inappropriate use of money. Had this money been properly used, it would have equipped 23 youth polytechnics at a cost of approximately KES 10 million each. It would have also enrolled 4,600 youth in programmes to gain skills and improve self-reliance, increase revenue collection and create job opportunities.

b) Youth, Sports, Gender and Social Services

In the 2017/18 FY, the County Executive allocated KES 70,748,455 to the ministry of Youth, Sports, Gender and Social Services. The amount wasn't used. If the amount would have been used in women empowerment through the establishment of tree nursery project groups, this would cost KES 2 million to create opportunities for approximately 40 groups of 30 members. And in return build the counties environmental conservation efforts. Indirectly if every nursery produced 100,000 seedlings multiplied by the 40 tree nursery groups, a total of 4 million seedlings would be produced which could benefit 400,000 citizens within the locality. This would have improved the economic status of the county residents.

5. Nyamira County Assembly

What was the audit report/opinion for Nyamira County Assembly for the FY 2016/17 and 2017/18?

Nyamira County Assembly

Financial Year	Audit Opinion
2016/17	Adverse Opinion
2017/18	Qualified Opinion

What were some key audit queries for the County Assembly of Nyamira FY 2016/17?

The table highlights some of the key audit queries for Nyamira County Executive for the Financial Year 2016/17.

No.	Queries	Details	Amounts Queried in KES.
1.	Payments made outside IPPD Payroll	Counties made payment of salaries outside the IPPD payroll management system contrary to regulations.	14,756,768
2.	Automation of broadcasting and Hansard recording	The project had been delayed for 25 months and no explanation was provided for the delay.	17,698,000
3.	Procurement for the provision of Air Ticket Services	The supplier was not on the list of pre-qualified suppliers. The quotations of five other suppliers were not provided for review.	1,561,100
4.	Procurement of hospitality supplies and services	The Assembly procured conference facilities through direct procurement contrary to the law.	2,781,525
5.	Employment of ward staff	The human resources department was recruited and appointed by MCAs without regard to provisions of the County Government Act which requires the process to be free, transparent and fair. They also crossed the limit of the number of employees by engaging four employees instead of three employees per ward.	Amount not included
6.	Domestic travel and subsistence expenses	No documentary evidence was provided as proof of travel and attendance of meetings.	462,000
7.	Foreign travel and subsistence expenses	The County Assembly officers were paid an irregular subsistence allowance for two extra days in Uganda.	1,042,386
8.	Underutilization of development funds	The total expenditure on development was underutilized by almost 63% of the total development budget.	114,211,356
9.	Excess expenditure on legal fees	The total expenditure on two legal cases against the Nyamira County Assembly should have been KES 248,000 instead of KES 3,033,332 invoiced.	3,033,332

10.	Ward expenses	Imprests advanced to ward employees were not serialised nor an ETR generated. Management didn't provide tenancy agreements between County Assembly and landlords for various ward offices.	3,565,000
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Nyamira County Assembly FY 2017/2018

The table highlights some of the key audit queries for Nyamira County Assembly for the Financial Year 2017/18.

No.	Queries	Details	Amounts Queried in KES.
1.	Inaccuracies in financial statements	Differences between financial statements and ledger balances.	4,005,943
2.	Variances between financial statements and supporting documents	Differences in financial statements and supporting schedules.	1,090,000
3.	Outstanding imprests	No reason has been provided for failure to have imprests surrendered or unaccounted for on their due dates.	198,700
4.	Unsupported balances reported in financial statements	The payment was not supported by a list of payees, payment schedules, ledgers and payment vouchers.	269,061,493
5.	Re-allocation of funds without authority	The compensation of employees vote reallocated to LAPFUND and LAPTRUST contributions. No evidence was provided to the treasury confirming reallocations for processing and no reason provided for their execution.	269,061,493
6.	Unsupported payments-domestic travel and subsistence	No documents provided such as work tickers, bus tickets, purposes of journeys made, no imprests warrants availed for audit review to confirm whether journeys and budgets were authorised.	12,085,600
7.	Irregular mileage allowance	None of the 5 MCAs paid, reside 90 km away from County Assembly to qualify for the allowance.	675,800
8.	Irregular Cash Payments	The payments made to Assembly staff and MCAs at end of financial year lacked requisite documents.	98,791,857
9.	Procurement of civil works	Details of how suppliers were identified were not made available for audit review. It was not possible to confirm the process met the public procurement threshold.	53,602,233
10.	Pending bills	Pending bills were not supported with relevant documents such as a certificate of completion, inspection and acceptance reports.	51,266,590

What was the amount questioned in relation to the total spending by the Assembly?

- **2016/2017:** 45% of the total expenditure queried; equivalent to KES 243 million
- **2017/2018:** 30% of the total expenditure queried; equivalent to KES 198 million



6. What could have been the best use of the questioned amount? (Opportunity Costs)

The following are examples of funds that could have given the population better value if properly accounted for:

- a) Under ward expenses, the amount queried of KES 3, 565,000; if it were put into suitable use would have constructed a safe house for gender-based violence victims. This would have offered psycho-social support and other technical skills as they recover for integration.
- b) The total amounts queried in 2016/17 total to KES 180 Million. This money would have funded the civil society network (CSO) to carry out civic education in every ward to the grassroots level. This would enhance public participation, social accountability and social audit, and improve governance and service delivery.

7. Which channels can citizens use to hold the responsible leaders to account?

1. The Constitution and various Acts of Parliament provide for the avenues for public participation, in the planning and budget cycle. From budget formulation to oversight (audit) process.
2. Some legal channels available for the public to hold leaders to account include:
 - a. Petitions to Parliament; written, must demonstrate effort of trying to resolve;
 - b. Submissions both oral and written (Memorandum) during public hearings;
 - c. Parliament and Assembly Committee inquiries;
 - d. Engagement during vetting and approval of nominees for appointments to county public offices as may be required by law; and
 - e. Engagement during impeachments/removal of state officers like the governor, Speaker, County Executives and County Public Service Board.
3. The following bodies are further mandated to provide oversight. Citizens can use the available public participation processes within the agencies, to lodge formal complaints or request for inquiries into corrupt practices:
 - a. Ethics and Anti-Corruption Commission;
 - b. Director of Public Prosecutions;
 - c. Director of Criminal Investigation;
 - d. Office of the Auditor General; and
 - e. National Treasury.

Definition of Key Terms in Audit Reports

Financial Statements	These are formal records of the financial activities and position of an entity. The structure and contents of financial statements are governed by various laws and regulations, including international financial reporting standards.
True and fair	‘True and fair’ is a concept concerning a set of financial statements that implies there are no significant errors and misrepresentations in the records. Financial statements will not be ‘true and fair’ unless the information they contain is adequate in terms of both quality and quantity to satisfy the reasonable expectations of users of the financial statements.
Internal control systems	This refers to the processes designed, implemented and maintained by those charged with governance and management. This provides reasonable assurance about the achievement of an entity’s objectives concerning the reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations.
Unsupported expenditure	This is spending that lacks adequate documentation, such as approvals, authorizations, receipts and vouchers etc. A transaction is also unsupported where some goods and services cannot be verified as received.
Excess/Unauthorized expenditure	This refers to overspending without authorization. In this case, spending is above the budget for a particular programme, but there is no supplementary budget or other authorization to exceed the spending limit in law. .
Irregular expenditure	This is spending incurred in violation of the relevant legislation, including the Public Finance Management Act, 2012, County government Public Finance Management Regulations, 2015, Public Procurement and Asset Disposal Act, 2015 or any other Act of Parliament.
Value for money	The economic (spending less), efficient (spending well) and effective (meeting objectives) utilization of resources.
Pending Bills	These are monies or arrears yet to be paid to suppliers for goods delivered or services rendered to a given entity.



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