

INSTITUTE OF ECONOMIC AFFAIRS

ANALYSIS REPORT OF

KENYA AUDITOR GENERAL'S AUDIT REPORTS

ON THE FINANCIAL STATEMENTS OF

NAKURU COUNTY EXECUTIVE

FOR THE THREE FINANCIAL YEARS: 2015/16, 2016/17 AND 2017/18

2-July-2019

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ABBREVIATIONS AND ACRONYMS

AIA	Appropriations in Aid
CA	County Assembly
CE	County Executive
CHV	Community Health Volunteers
CRA	Commission for Revenue Allocation
CRF	County Revenue Fund
DP	Development Partner
ECD	Early Childhood Development
EFT	Electronic Funds Transfer
FAR	Fixed Assets Register
FM	Financial Management
FY	Financial Year
IAD	Internal Audit Department
IDP	Internally Displaced Person
IEA	Institute of Economic Affairs
IFMIS	Integrated Financial Management Information System
IPSAS	International Public Sector Accounting Standards
ISA	International Standards on Auditing
IT	Information Technology
KICOSCA	Kenya Inter-County Sports and Cultural Association
KDSP	Kenya Devolution Support Programme (World Bank-funded)
Kshs	Kenyan Shillings
KRB	Kenya Roads Board
KURA	Kenya Urban Roads Authority
LPO	Local Purchase Order
LSO	Local Service Order
MCA	Member of County Assembly
MoDP	Ministry of Devolution and Planning
NG	National Government
NT	National Treasury
OAG	Office of the Auditor General
PSASB	Public Sector Accounting Standards Board of Kenya
PV	Payment Voucher
SCOA	Standard Chart of Accounts
TORs	Terms of Reference

1.0 EXECUTIVE SUMMARY

1. Following the adoption of devolved system of government in Kenya in 2010, 47 county governments were established; these were intended to be the new focus of development for the country. Full implementation of the devolved system began in earnest in the financial year (FY) 2013/14. Since then massive resources have been transferred to all 47 county governments by the National Government (NG), which constitute the bulk of each county's annual resource envelope compared to own locally generated revenues. This report analyses Nakuru County Executive (Nakuru CE) financial audit reports published by the Office of the Auditor General (OAG) for three consecutive FYs, from 2015/16 to 2017/18.
2. Over the three FYs under analysis, the Nakuru CE cumulatively spent a total of Kshs.33.7 Billion. However, the annual audit reports of the Auditor General for the three FYs reveal a broad-spectrum of both quantifiable and unquantifiable accountability failures by the Nakuru CE. These failures are manifested by factors such as substantial unsupported or inadequately supported expenditures, failure to reconcile accounts and poor record keeping, un-budgeted and excessive spending, non-disclosure and unexplained write-off of substantial debtors, significant incidences of no value-for-money, and wide-ranging violations of financial and procurement management laws and regulations, among many other failures.
3. The readily quantifiable queried accountability failures reported by the OAG cumulatively amount to Kshs.9.8 Billion or 29% of the total Kshs.33.7 Billion expenditure for the three FYs, as summarised in **Table A** below. The table also provides a snapshot of the type of audit opinion issued by the OAG for the three FYs under analysis.

Table A: Summary of Auditor General's Opinions and Queried Expenditure for the Three Financial Years

	FY 2015/16	FY 2016/17	FY 2017/18	Cumulative
Type of Audit Opinion	Adverse Opinion	Qualified Opinion	Qualified Opinion	-
Total expenditure	10,989,186,081	11,476,765,381	11,257,747,507	33,723,698,969
Queried Expenditure	852,188,364	4,350,125,304	4,993,062,105	10,195,375,773
Queried Expenditure as % Total	7.76%	37.90%	44.35%	30.23%

4. As can be seen from **Table A**, none of the three FYs analysed received a "clean" audit opinion. The year-on-year increases in queried public expenditure reveal a worrying sense of diminishing public finance management discipline and a discernible lack of respect for positions of public trust bestowed on, and weak personal integrity of, top accounting officers of the Nakuru CE. Generally, the audit findings reveal that financial management affairs in Nakuru CE do not meet the constitutional principles of public finance management of openness and accountability, use of public money in a prudent and responsible way, and clear fiscal reporting. The audit findings also indicate serious violations of public finance management law and regulations, which place the highest level of responsibility and accountability on accounting officers in each county government entity.
5. It should be appreciated that, although queried financial transactions in the foregoing paragraphs have been quantified, Nakuru CE also suffers many transparency and accountability concerns which do not readily render themselves to direct quantification. These include violation of financial regulations, poor budgetary and fiscal controls, poor bookkeeping and accounting practices, irregular and excessive employment of staff,

instances of conflict of interest, among others. Although lacking in immediate quantifiable or direct financial impacts, these concerns may potentially and ultimately result in the overall county financial management failure if left unchecked, as they relate to institutional governance, risk management, internal control failures.

6. Also, it is worthwhile to observe that lack of compliance with financial management and procurement laws and regulations is probably the most fundamental underlying condition for all audit queries arising at the Nakuru CE. It would be meaningful for the primary key causes for non-compliance with laws and regulations are established as they could relate to both short term personal and system deficiencies and long term legal and regulatory matters.
7. From the foregoing, and assuming all county-level accounting officers are properly qualified and experienced, perhaps the single biggest gap in the effective protection of public resources is the lack of or inadequate application of punitive sanctions against past wrongdoers. This may have served to embolden latter-day wrongdoers. Because of this, audit reports and recommendations are probably habitually not taken seriously and/or implemented.
8. In conclusion, although this report portrays a somewhat grim picture of Nakuru CE's management, control and reporting of public resources, hope-for-the-better cannot be lost. However, accountability and oversight organs in-charge of county governments, principally the relevant committees of the County Assembly (CA) and the Senate, are encouraged to step up their oversight roles to ensure continuing efficacy in the utilisation, management, control, reporting and faithful disclosure of public expenditure.

2.0 INTRODUCTION

2.1 Background to the Analysis

7. Kenya adopted a devolved system of government in 2010 under a new constitutional dispensation, with two levels of government – the NG and county governments. Forty seven (47) county governments were established to complement the NG in delivering services to the public at the grassroots level.
8. County governments have two main sources of revenue for the implementation of their devolved functions, namely transfers from the NG and own locally generated revenues. Public expenditures at county level are planned, budgeted and spent in accordance with the constitution and PFM law and regulations, including the public procurement and asset disposal law and regulations. The annual financial statements of both national and county governments are constitutionally required to be audited by the Auditor General.
9. Despite the existence of elaborate principles, laws and regulations intended to ensure full accountability and transparency in the sound and prudent management of public resources, boosted by robust anti-corruption laws and institutions, the Auditor General continues to report, year-after-year, high levels of misuse and mismanagement of county-level public revenues through a variety of seemingly corruptive schemes involving public officers, often in collusion with private sector actors.
10. It is with the foregoing concerns in mind that the Institute of Economic Affairs (IEA) commissioned a synthesis and analysis of the Auditor General’s Reports on the Nakuru County Executive (CE) financial statements for the three financial years (FYs) 2015/16, 2016/17 and 2017/18 with a view to identifying pervasive accountability and compliance failures as reported by the Auditor General.
11. The analysis of the Auditor General’s Reports on the Nakuru CE’s financial statements for the three FYs mentioned was conducted by the Centre for Transformational Leadership (CTL), a local civil society organisation based in Nakuru town, assisted by an IEA consultant on-site during the week ended 17-May-2019 and, thereafter through electronic communication channels.

2.2 Significance of the Analysis

12. The analysis entailed an examination of queried transactions and amounts as reported in the Nakuru CE’s audited financial statements for the three FYs 2015/16 through FY 2017/18.
13. The analysis sought to identify trends in “questioned transactions” and key problematic accountability and transparency themes for the purpose of driving meaningful public policy discourse and awareness regarding the economic losses occasioned by wanton misuse and mismanagement of public resources.
14. It is hoped that analysis will be useful in sensitising the public and all other key stakeholders in: (a) enhancing and strengthening public oversight functions; (b) enhancing the quality of public/citizen engagement and participation in the public expenditure planning and prioritisation; and (c) improving the overall public policy discourse and formulation.

2.3 Methodology and Scope of the Analysis

15. The exercise involved an analysis and synthesis of the Auditor General's Reports on the Nakuru CE's annual financial statements for the three FYs 2015/16, 2016/17 and 2017/18. The focus of the analysis was on queried transactions and balances, both revenue and expenditure items as contained in the Auditor General's Reports. The overall net financial effect of the quantified audit queries was determined.
16. The analysis also focused on other matters contained in the Auditor General's Reports which do not have a directly quantifiable financial effect, but which also contribute to the overall seemingly chaotic accountability and transparency environment in the Nakuru CE.
17. The specific scope of the analysis was to:
 - a) Review the published financial audit reports for Nakuru CE for the last three years;
 - b) Summarise the trends in the total expenditure for each financial year;
 - c) Summarise the total amount amounts queried as a share of total expenditure;
 - d) Identify and explain the Audit Opinion and conclusions for each financial year; and
 - e) Make recommendations based on the key message in the OAG's conclusions.

2.4 Structure of this Report

18. This analysis report contains nine sections. **Section 1** is an Executive Summary, providing a synopsis of the overall report findings and recommendations. **Section 2** provides the background and scope of the analysis. **Section 3** provides an overall picture of the total expenditure and queried amounts for each FY covered by the analysis. **Sections 4** provides examples of practical examples of uses for selected queried expenditure. Recurring audit queries are provided in **Section 5**, and **Section 6**, the final section, contains the conclusions and recommendations arising from the analysis.
19. The details of the queried amounts are provided in **Annexes** in support of the figures in **Section 3**. A list of relevant **references** is also provided as is a **glossary** of important terms used in this report.
20. For ease of reference the report is framed in uninterrupted and serially numbered paragraphs.
21. To achieve a proper and complete understanding, it is strongly recommended that this report should be read in its entirety, and in conjunction with the underlying Auditor General's Reports.

3.0 SUMMARY OF KEY FINDINGS

3.1 Nature of External Audit Opinions

9. An auditor's opinion is the outcome or result of an auditor's review of an organisation's annual financial statements. An external audit is an independent examination of the annual county financial statements as prepared by the county. An external audit provides reasonable, but not absolute, assurance, in an opinion paragraph, as to the reliability of the financial statements. The audit opinion is formed as to the truth and fairness, or fair presentation, of the financial statements taken as a whole.
10. None of the audit reports on the annual financial statements for the three financial years (FYs) under analysed was “clean”. A “clean” or “thumbs-up” audit opinion contains “standard or unmodified wording”, with the Auditor General typically using either of the following two phrases:
- In my opinion, the financial statements present fairly, in all material respects ..., or
 - In my opinion, the financial statements give a true and fair view of ...
11. The quality of the auditor’s opinion is assessed from the four types of audit opinions that the auditor can potentially provide on the financial statements as a whole. These are:

Table B: Types of Audit Opinion

Type of Auditor’s Opinion ¹	Modified or Unmodified	Auditor is saying that Financial Statements as a whole are...
i) Unqualified opinion	Unmodified	Okay
ii) Qualified opinion	Modified	Okay, except for ...
iii) Adverse opinion	Modified	Not okay
iv) Disclaimer of opinion	Modified	No opinion given

Source: Author’s professional knowledge and experience

12. The Nakuru CE received modified audit opinions for all three financial years under analysis, meaning that all three years’ financial statements were “not clean”. The type of the Auditor General’s Opinion, total expenditure and the total queried amounts for each of the three FYs are summarised in **Table C** below. From the table below, it is evident that the total queried expenditures have continued to increase year-on-year, moving from Kshs.852.19 Million in FY 2015/16 to a whopping Kshs.4.99 Billion in FY 2017/18, an enormous increase of 486%.

Table C: Summary of Auditor General's Opinions and Queried Expenditure for the Three Financial Years

	FY 2015/16	FY 2016/17	FY 2017/18	Cumulative
Type of Audit Opinion	Adverse Opinion	Qualified Opinion	Qualified Opinion	-
Total expenditure	10,989,186,081	11,476,765,381	11,257,747,507	33,723,698,969
Queried Expenditure	852,188,364	4,350,125,304	4,993,062,105	10,195,375,773
Queried Expenditure as % Total	7.76%	37.90%	44.35%	30.23%

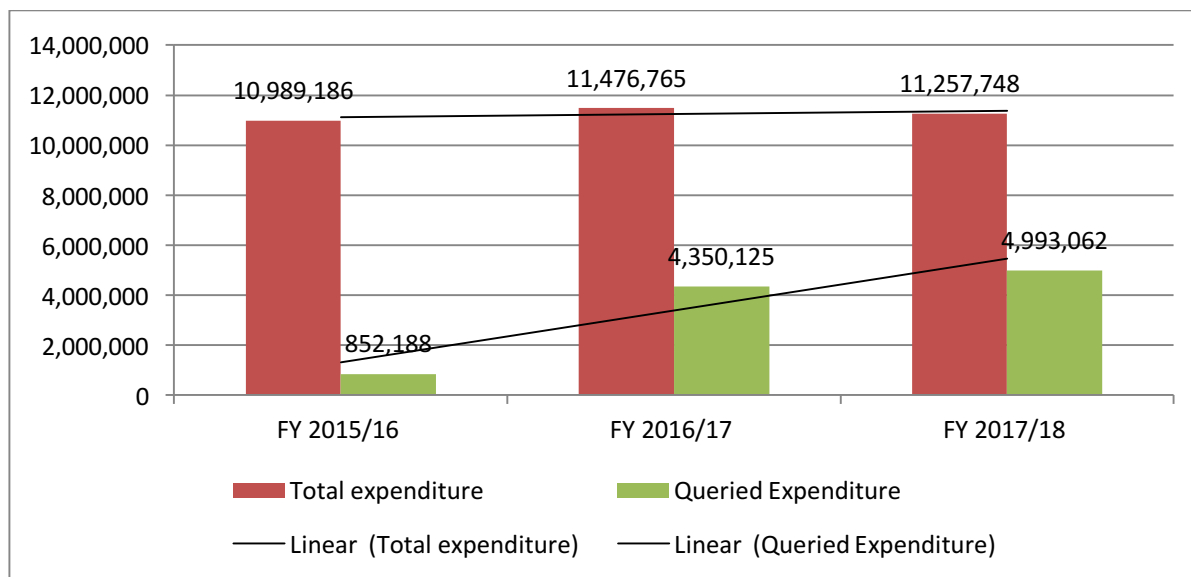
Source: Analysed from the audited financial statements for the three FYs

¹ A more elaborate meaning of each type of audit opinion/report is provided in **Annex 1**.

3.2 Analysis of Total Queried Amounts against Total Reported Expenditure

22. From the table above, it is evident that the queried amounts for Nakuru CE have continued to increase year-on-year. This growth in queried expenditures is clearly demonstrated in **Figure 1** below against minimal annual changes in total expenditure.

Figure 1: Total Queried Amount against Total Annual Expenditure for each Financial Year



Source: Analysed from the audited financial statements of Nakuru CE

23. The massive growth in queried amounts contrasts sharply with the modest changes in total reported expenditures over the three FYs, as analysed in **Table D** below.

Table D: Modest Changes in Total Expenditure over the 3 Financial Years

FY	Total Expenditure Kshs	Increase/ (Decrease)	% Change
FY 2015/16	10,989,186,081	-	-
FY 2016/17	11,476,765,381	487,579,300	4.4%
FY 2017/18	11,257,747,507	(219,017,874)	-1.9%

Source: Analysed from the audited financial statements of Nakuru CE

3.3 Comparative Analysis of Total Budgeted and Actual Expenditures by Financial Year

13. **Tables E** below presents a comparative analysis of the County's total budgeted and actual expenditures for each of the financial years under analysis.

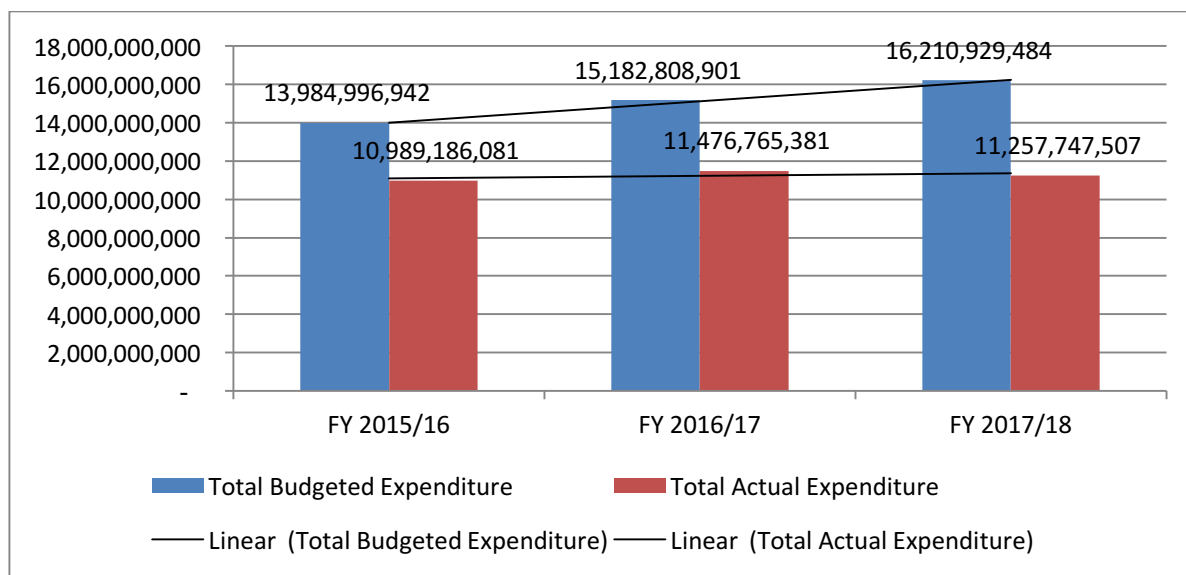
Table E: Comparative Analysis of Budgeted and Actual Expenditures by Financial Year

Item		FY 2015/16	FY 2016/17	FY 2017/18
Total Budgeted Expenditure	a	13,984,996,942	15,182,808,901	16,210,929,484
Total Actual Expenditure	b	10,989,186,081	11,476,765,381	11,257,747,507
Budget Absorption Rate	b/a	78.6%	75.6%	69.4%

Source: Extracted from the audited financial statements of Nakuru County

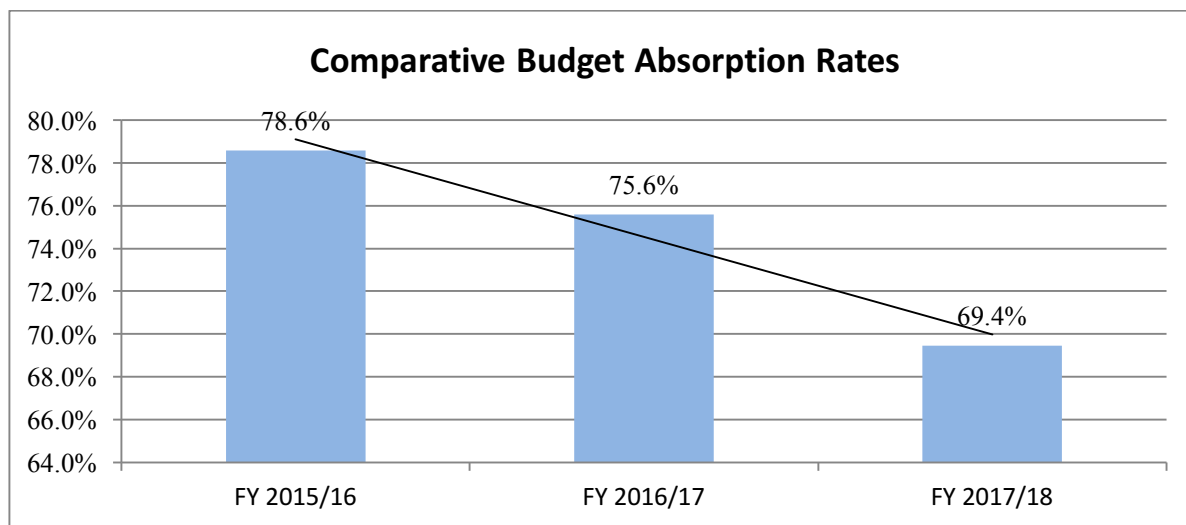
14. The comparative analysis shows a rapidly declining rate in the Nakuru County's ability to absorb its budgeted resources, which show significant increases over the three years under review.
15. The comparative total expenditures and absorption rates are also shown graphically in **Figure 3** and **Figure 4**, respectively, below.

Figure 2: Comparative total Budgeted and Actual Expenditures for each Financial Year



Source: Analysed from the audited financial statements of Nakuru County

Figure 3: Comparative Budget Absorption Rates for the three Financial Years



Source: Analysed from the audited financial statements of Nakuru County

3.4 Summary of Number of Audit Queries by Financial Year

16. **Table F** below presents a synopsis of the number of audit queries for each FY under analysis. The queries are divided into two main groups – those with a direct and quantifiable financial effect and those without.

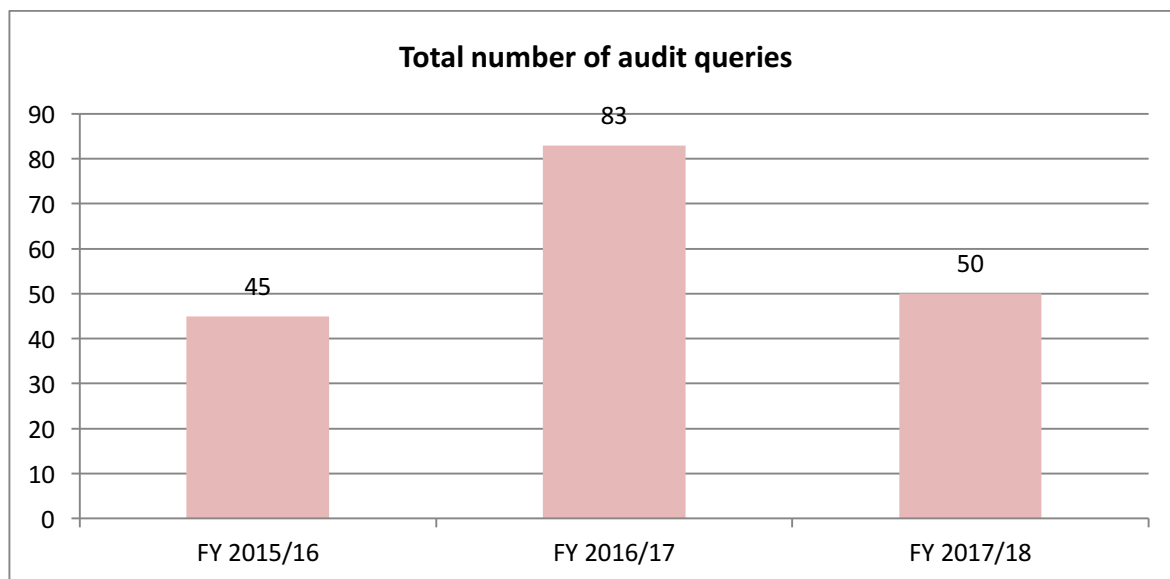
Table F: Summary of Number of Audit Queries by FY

Summary of Number of Audit Queries	Ref	FY 2015/16	FY 2016/17	FY 2017/18
Number of audit queries with direct financial effects	Table G	25	44	30
Number of audit queries without direct financial effects	Table H	20	39	20
Total number of audit queries		45	83	50

Source: Summarised from Auditor General's reports on Nakuru CE annual financial statements

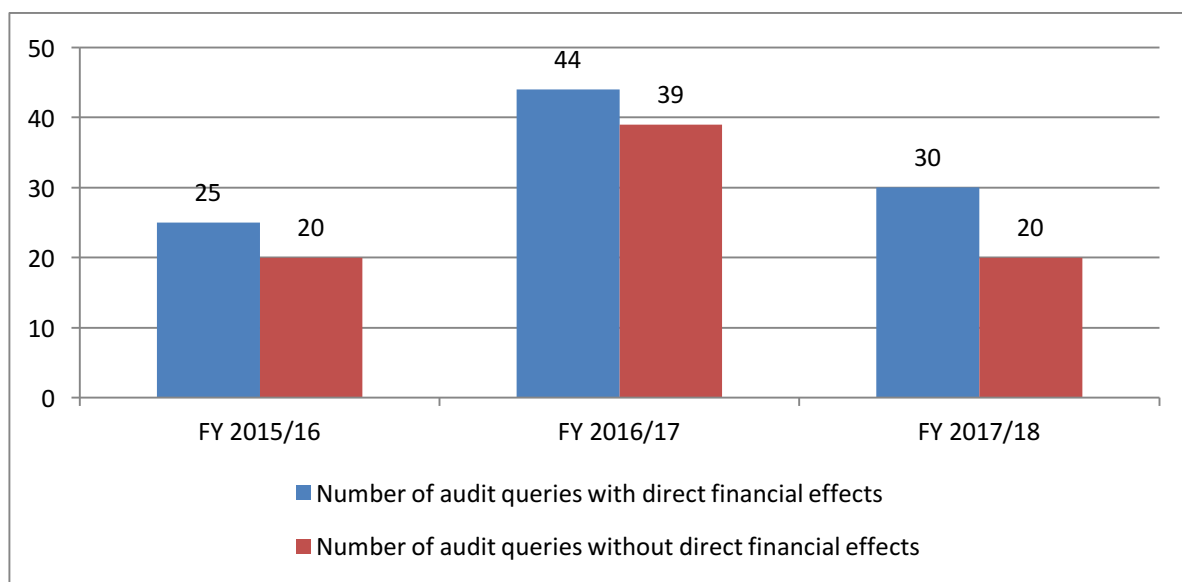
17. The number of queries above are further analysed in the graphs in **Figures 5** and **6** below.

Figure 4: Comparative Analysis of total number of Audit Queries for the three Financial Years



Source: Charted from Auditor General's reports on Nakuru CE annual financial statements

Figure 5: Comparative Analysis of Audit Queries with and without Financial Effect for the three Financial Years



Source: Charted from Auditor General's reports on Nakuru CE annual financial statements

18. **Table G** below breaks down the number of audit queries **with** a direct and quantifiable financial effect by main accountability themes.

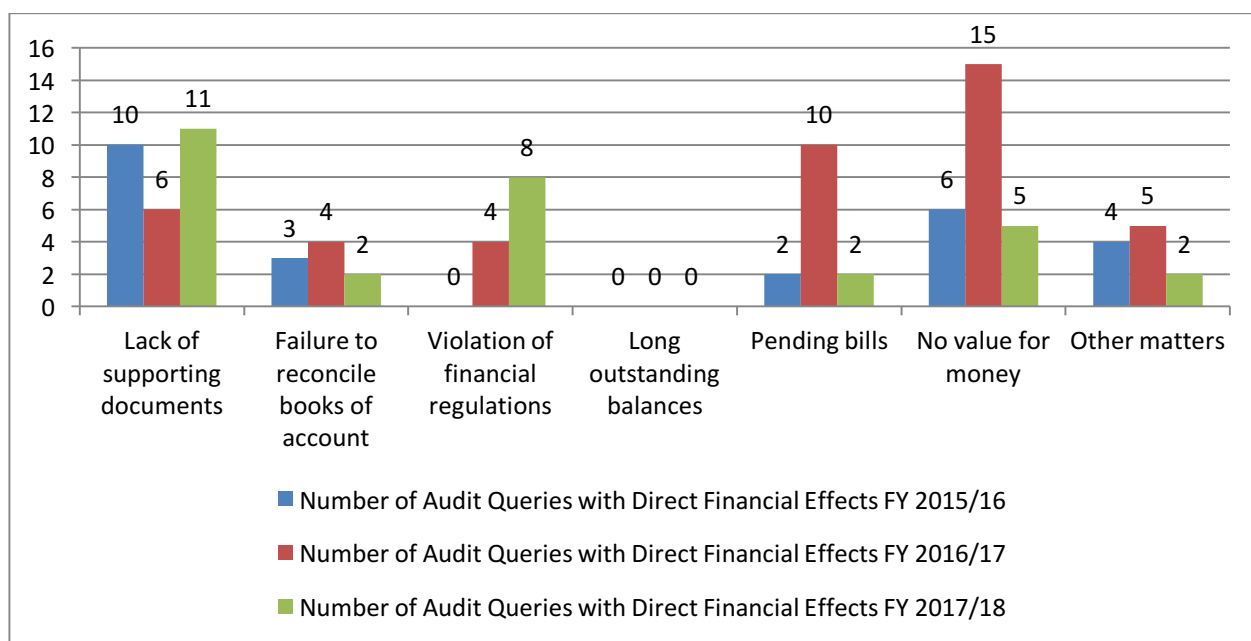
Table G: Breakdown of Number of Audit Queries with a Direct and Quantifiable Financial Effect by FY

Main Audit Issues Noted		Number of Audit Queries <u>with</u> Direct Financial Effects		
		FY 2015/16	FY 2016/17	FY 2017/18
1	Lack of supporting documents	10	6	11
2	Failure to reconcile books of account	3	4	2
3	Violation of financial regulations	0	4	8
4	Long outstanding balances	0	0	0
5	Pending bills	2	10	2
6	No value for money	6	15	5
7	Other matters	4	5	2
	Total	25	44	30
Reference to detailed breakdown		Annex 2	Annex 3	Annex 4

Source: Summarised from Auditor General's reports on Nakuru CE annual financial statements

19. The audit queries **with** a direct and quantifiable financial effect by main accountability themes are further analysed graphically in Figure 6 below.

Figure 6: Analysis of number of Audit Queries for the three Financial Years



20. **Table H** below breaks down the number of audit queries **without** a direct and quantifiable financial effect by main accountability themes.

Table H: Breakdown of Number of Audit Queries without a Direct and Quantifiable Financial Effect by FY

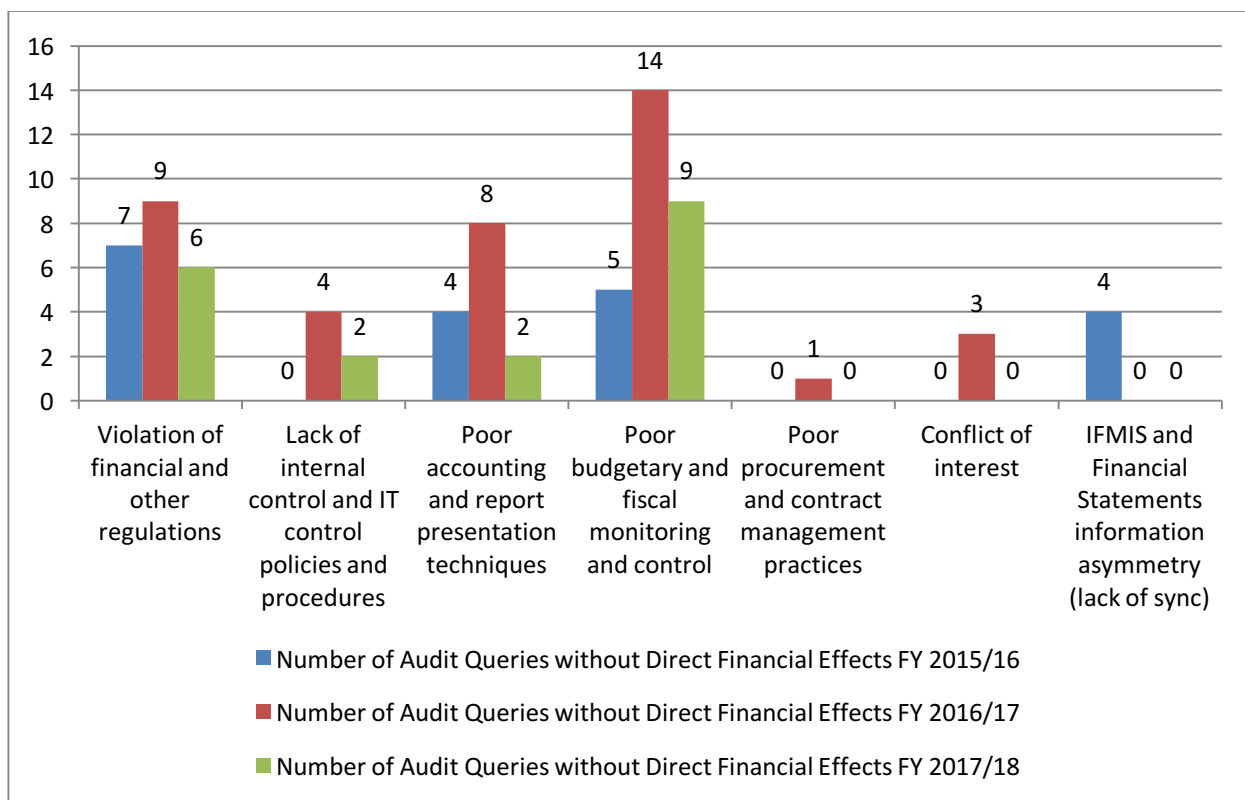
Main Audit Issues Noted		Number of Audit Queries <u>without</u> Direct Financial Effects		
		FY 2015/16	FY 2016/17	FY 2017/18

Main Audit Issues Noted		Number of Audit Queries <u>without</u> Direct Financial Effects		
		FY 2015/16	FY 2016/17	FY 2017/18
1	Violation of financial and other regulations	7	9	6
2	Lack of internal control and IT control policies and procedures	-	4	2
3	Poor accounting and report presentation techniques	4	8	2
4	Poor budgetary and fiscal monitoring and control	5	14	9
5	Poor procurement and contract management practices	-	1	0
6	Conflict of interest	-	3	0
7	IFMIS and Financial Statements information asymmetry (lack of sync)	4	-	0
Total		20	39	20
Reference to detailed breakdown		3.5.1	3.5.2	3.5.3

Source: Summarised from Auditor General's reports on Nakuru CE annual financial statements

24. The number of audit queries without direct financial effects are further comparative analysed graphically in **Figure 7** below.

Figure 7: Number of Audit Queries without Direct Financial Effects for the three Financial Years



25. It should be noted that the classification of accountability queries into specific categories is really not critical to prudent public finance management and oversight; rather, the categories are mere guides intended to help the readers of the report in breaking down the

overwhelming universe of audit queries into more manageable buckets that the readers can get their heads around.

26. Getting the queries listed somewhere, and assessing their level of materiality and pervasiveness, is far more important than the actual category assignment. This is because some audit queries will often fit into more than one category. For example, an unsupported expenditure can fall into 4 or more categories such as:
 - a) Lack of supporting documents;
 - b) Failure to reconcile books of account;
 - c) Violation of financial regulations; and
 - d) No value for money received;
27. The fact the an audit query can fall to be treated under one or more categories should be understood and should not be a cause for worry; the important thing is to just pick a category and move on to address the underlying condition causing the anomalies identified.

3.5 Summary of Queried and Quantifiable Amounts by Key Themes for the three FYs

21. The queried and quantifiable amounts have been classified under seven main classification headings as summarised in **Table I** below for the three FYs under analysis.

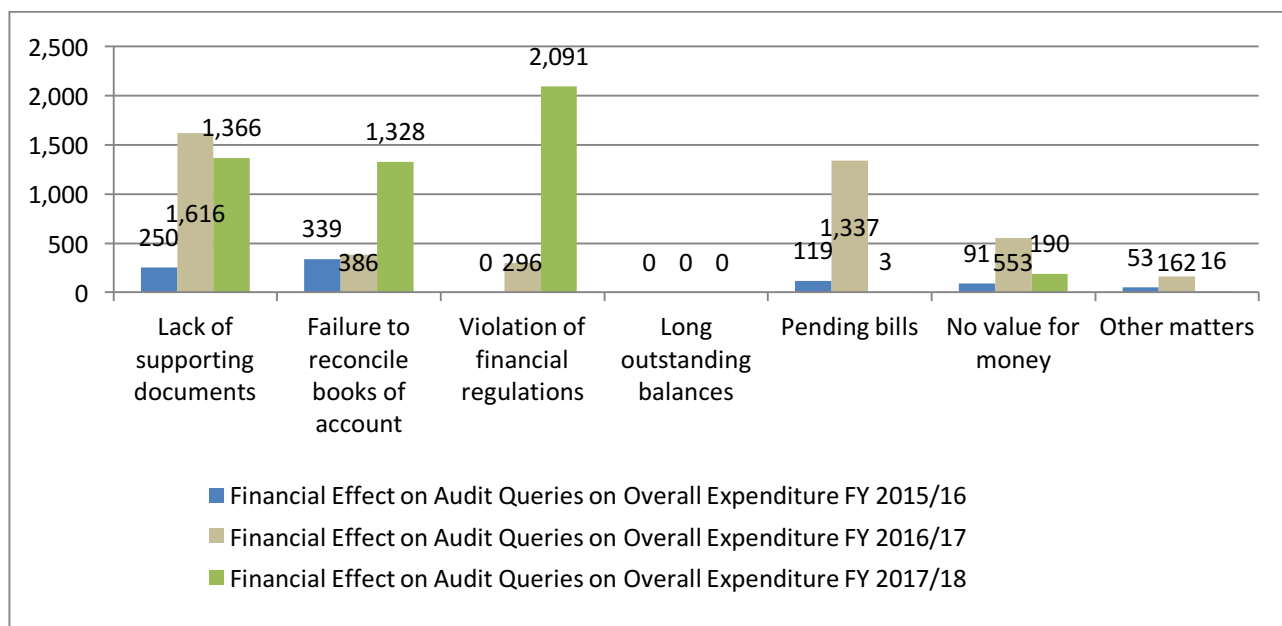
Table I: Summary of Audit Queries with Direct Financial Effects for the three FYs

Main Audit Issues Noted		Financial Effect on Audit Queries on Overall Expenditure in Kshs			
		FY 2015/16	FY 2016/17	FY 2017/18	Cumulative
1	Lack of supporting documents	250,333,746	1,616,172,255	1,365,796,982	3,232,302,983
2	Failure to reconcile books of account	338,617,170	385,884,691	1,327,815,243	2,052,317,104
3	Violation of financial regulations	0	295,826,415	2,091,361,276	2,387,187,691
4	Long outstanding balances	0	0	0	0
5	Pending bills	118,827,723	1,336,854,111	2,961,344	1,458,643,178
6	No value for money	91,275,274	553,063,631	189,704,158	834,043,063
7	Other matters	53,134,451	162,324,201	15,523,102	230,981,754
Total overstatement effect on overall expenditure		852,188,364	4,350,125,304	4,993,162,105	10,195,475,773
Reference to detailed breakdown		Annex 2	Annex 3	Annex 4	-

Source: Analysed from the OAG's Reports on the Nakuru CE's audited financial statements for the three FYs

22. The number of queried and quantifiable expenditures grouped by the seven main classification headings are further comparatively analysed graphically in **Figure 8** below for the three financial years.

Figure 8: Comparative analysis of Total Queried and Quantifiable Expenditures for the three Financial Years (in Kshs. M)



Source: Analysed from the OAG's Reports on the Nakuru CE's audited financial statements for the three FYs

3.6 Summary of Queried but Unquantifiable Matters by Key Themes

3.6.1 Detailed Analysis of Accountability Issues without Direct Financial Impacts for FY 2015/16

23. For FY 2015/16, these issues are analysed in **Table J** below under the following 4 key headings of:

- Violation of financial regulations;
- Poor accounting and report presentation techniques;
- Poor budgetary and fiscal monitoring & control; and
- Information asymmetry (lack of sync) between IFMIS and financial statements

Table J: Analysis of Accountability Issues without Direct Financial Impacts for FY 2015/16

Main Accountability Issue	Count	Description of Specific Issues Noted
Violation of financial and other regulations	7 issues	a) Failure to establish County Audit Committee contrary to PFM Law and Regulations
		b) Recruitment of unqualified staff in Job Group "N" contrary to advertised qualifications and experience
		c) Irregular and excessive recruitment of Ward Administrators under Job Group "N"
		d) Irregular and excessive recruitment of un-budgeted fire-fighting cadet officers under Job Group "H"
		e) Budgeted projects not initiated at all
		f) Projects awarded, contracts signed but not implemented at all
		g) Employee costs in excess of the regulatory threshold of 35% total revenue, being 44.74% of total revenue
Poor accounting	4 issues	a) Failure to prepare a trial balance
		b) Recording locally generated revenue receipts using bank slips

Main Accountability Issue	Count	Description of Specific Issues Noted
and report presentation techniques		rather than official miscellaneous receipts
		c) Failure to maintain a register of pending bills - hence certain supplier payments cannot be ascertained
		d) Vague presentation of pending bills balances contrary to official financial reporting template (no listing)
Poor budgetary and fiscal monitoring & control	5 issues	a) Under-collection of flower cess income - due to failure to establish a planning "universe" or register of flower farms
		b) Under-collection of liquor licence fees - due to lack of a "master" register – makes determination, application and enforcement of various fees impossible
		c) Unknown difference between approved income budget and reported income budget
		d) Unknown difference between approved expenditure budget and reported expenditure budget
		e) Carry-forwards of substantial pending bills of over Kshs.230M from FY13/14 (755K) and FY 14/15 (229.6M)
IFMIS and Financial Statements information asymmetry (lack of sync)	4 issues	Information asymmetry (non-reciprocal) between IFMIS and Reported numbers:
		a) County Ministry of Education: County Devt Budget = Kshs.348,340,000; IFMIS Devt Budget = Kshs.777,074,738
		b) Unreconciled IFMIS and financial statement figures: Reported Receipts = Kshs.11.2B; IFMIS Receipts = Kshs.2.7B
		c) Unreconciled IFMIS and financial statement figures: Reported Payments = Kshs.10.99B; IFMIS Payments = Kshs.3.23B
		d) County Ministry of Education: County Devt Budget = Kshs.348,340,000; IFMIS Devt Budget = Kshs.777,074,738
		e) County Ministry of Roads: County Devt Budget = Kshs.842,070,620; IFMIS Devt Budget = Kshs.1,511,387,380
Total issues	20 issues	

Source: Analysed from the audited financial statements of Nakuru CE for FY 2015/16

3.6.2 Detailed Analysis of Accountability Issues without Direct Financial Impacts for FY 2016/17

24. For FY 2016/17, accountability issues without a direct financial effect are analysed in **Table K** below under the following 4 key headings of:

- Violation of financial regulations;
- Lack of internal control and IT control policies and procedures
- Poor accounting and report presentation techniques;
- Poor budgetary and fiscal monitoring and control; and

Table K: Analysis of Accountability Issues without Direct Negative Financial Impacts for FY 2016/17

Main Accountability Issue	Count	Description of Specific Issues Noted
Violation of financial	9 issues	a) Failure of County Receivers of Revenue to prepare and submit a statement of receipts & disbursements to OAG

Main Accountability Issue	Count	Description of Specific Issues Noted
regulations		b) Failure of County Receivers of Revenue to prepare and submit a statement of receipts & disbursements OAG c) Failure of County Receivers of Revenue to prepare and submit a report to CA on waivers and variations in taxes, charges & fees d) Irregular transfer of Devt Vote funds to Recurrent Vote of Ministry of Finance e) Irregular transfer of Devt Vote funds to Recurrent Vote of the Governor's Office f) Employee costs in excess of the threshold of 35% total revenue, being 44% of total revenue g) County failure to prepare and submit a Bursary Fund Financial Statement to OAG or CA – also bursaries issued in a haphazard manner as there is no guiding policy h) Unbudgeted expenditures on Afraha Stadium by various ministries in an uncoordinated fashion i) Employee costs recorded and reported under different no-staff cost accounts – probably to hide over-expenditure on budget
Lack of internal control and IT control policies and procedures	4 issues	a) Various information systems installed and implemented but not integrated with IFMIS b) No IT Strategy Committee in place c) No IT strategic plan, no IT policy, no risk management policy, no IT disaster recover/business continuity plan d) Various outsourced IT services do not have service level agreements
Poor accounting and report presentation techniques	8 issues	a) Mispostings and misclassifications of casual wages, understating total employee costs b) Bank balances taken from bank certificate figures rather than the cash books; also some figures from bank statements were the wrong ones; and listings of un-presented cheques not available c) Vague presentation of pending bills balances (by total per ministry) contrary to official financial reporting template issued by the PSASB d) Unexplained/unsupported understatement variance in pending bills e) Fixed assets poorly presented in the financial statements - no "movement" from opening balances, additions, disposals and closing balances f) Non-updating of the fixed assets register g) Lack of segregation of duties - accountant signing acceptance certificates and also authorising payments h) Employee costs (133,750,595/-) recorded and reported under different no-staff cost accounts – probably with the motive to hide over-expenditure on budget, as staff costs were already overspent

Main Accountability Issue	Count	Description of Specific Issues Noted
Poor budgetary and fiscal monitoring & control	14 issues	<ul style="list-style-type: none"> a) Hiring of many casual workers despite having about 5,000 employees b) Recruitment of 52 officers in Job Group H with budget provision and without cabinet approval, and no formal communication to the payroll officer – so, not clear how personal numbers were obtained – this action increase staff costs by Kshs.17,219,112 c) Irregular promotions - no criteria, no internal advertisements, multiple job group movements for some employees within one year d) Despite existence of a Bursary Fund, no operational policy is in place e) Non-existence of a fixed assets management policy f) Poor contract administration & management - car track management system g) Poor contract administration - legal services provided by employee and his law firm h) Poor contract administration - lack of proper documentation for cases handled by law firms i) Poor contract administration - asset management system paid off without proper documentation j) County valuation roll never tabled for adoption since 2015 yet contract paid off k) Draft 10-year county spatial devt plan (2014-24) never tabled for adoption since FY214/15 l) Land information management system - contract lapsed with no clear deliverables evident m) Consistent rolling budgeted projects forward to future years makes public participation worthless n) County not in possession of land parcel titles one and half years after paying off for land
Poor procurement and contract management practices	1 issue	Track and Trace Limited - Car Track Management System: Contract signed and paid on unknown basis as vital details were missing from the contract, such as: number & type of vehicles to be fitted, unit price, logbooks not available to confirm county owned the vehicles, for 98 vehicles paid for at 21,500 each, and not Inspection & Acceptance Committee report to indicate if the specified fittings were actually done
Conflict of interest	3 issues	Ministry of Public Service Management: <ul style="list-style-type: none"> a) County attorney (Hari Gakinya), who is a county employee also having his own law firm (Hari Gakinya & Co. Advocates) paid separate fees for work that he can do as an employee (Kshs.10M) b) County attorney (Hari Gakinya) officially pushing for payment for legal fees to outside lawyers: Konosi & Co. Advocates (Kshs.3M) and Ikua Mwangi & Co. Advocates (Kshs.4M) despite not provide supporting documentation

Main Accountability Issue	Count	Description of Specific Issues Noted
		such as: number of cases handled, status of the cases, initial fee amount, amount paid to date and outstanding amount, if any
		c) Payment of 2 private lawyer (Kshs.2,660,014) despite having inside lawyers/legal advisors
Total issues	39 issues	

Source: Analysed from the audited financial statements of Nakuru CE for FY 2016/17

3.6.3 Analysis of Accountability Issues without Direct Financial Impacts for FY 2017/18

25. For FY 2017/18, accountability issues without a direct financial effect are analysed in **Table L** below under the following 4 key headings of:

- a) Violation of financial regulations;
- b) Lack of internal control and IT control policies and procedures
- c) Poor accounting and report presentation techniques;
- d) Poor budgetary and fiscal monitoring and control; and

Table L: Accountability Issues without Direct Financial Impacts for FY 2017/18

Main Accountability Issue	Count	Description of Specific Issues Noted
Violation of financial regulations	6 issues	a) Failure to main cash books for 20 bank accounts and failure to prepare bank reconciliation statements
		b) Failure to comply with PFM (County Governments) Regulations, 2015 regarding spending with approved budgets
		c) Employee costs in excess of the threshold of 35% total revenue, being 44% of total revenue
		d) Authority to hire temporary employees not provided for audit
		e) Unapproved over-budget expenditure on electricity by Ministry of Roads
		f) Unexplained non-submission of car loan and bursary fund financial statements to the OAG
Lack of internal control and IT control policies and procedures	3 issues	a) Various information systems installed and implemented but not integrated with IFMIS
		b) No IT Strategy Committee in place
		c) No IT strategic plan, no IT policy, no risk management policy, no IT disaster recover/business continuity plan
Poor accounting and report presentation techniques	2 issues	a) Failure to main cash books for 20 bank accounts, therefore reconciliation not possible
		b) Lack of an updated fixed assets register
Poor budgetary and fiscal monitoring and	9 issues	a) Substantial arrears of uncollected market stall fees revenue from 4 sampled markets
		b) Substantial uncollected arrears of rental fee from 2 main

Main Accountability Issue	Count	Description of Specific Issues Noted
control		sub-counties - Nakuru East and Naivasha
		c) Substantial uncollected arrears of liquor licence fees revenue and no evident collection efforts
		d) Substantial uncollected arrears of plot rents and rates revenue and no evident collection efforts
		e) Budgeted and approved projects not implemented by Ministry of Trade
		f) Budgeted and approved projects not implemented by Ministry of Education
		g) Budgeted and approved projects not implemented by Ministry of Public Service Management
		h) Draft 10-year county spatial devt plan (2014-24) never tabled for adoption since FY214/15
		i) Land information management system (LIMS) - contract lapsed with no clear deliverables evident
Total issues	20 issues	

Source: Analysed from annual report of the Auditor General for FY 2017/18

4.0 OPPORTUNITY COST EXAMPLES FOR THREE FYs

4.1 Practical Example of Opportunity Cost Implication for FY 2015/16 Queried Amounts

28. The audit report of FY 2015/16 revealed that outstanding staff imprest balances amounting to Kshs.11,235,362 were neither surrendered nor disclosed in the financial statements.
29. If the Kshs.11,235,362 had been used towards the payment of day secondary school student bursaries, it could pay for about 750 day students for one year, assuming a total of Kshs.15,000 per student, each needing Kshs.5,000 per school term. The personal and social-economic benefits of such expenditure would be enjoyed for many years and generations.
30. Also, the positive impact of such use of scarce public funds would be immense as represented, among other benefits, by; a) reduced school dropout rates, b) reduced financial burdens on parents and guardians, c) increased self-esteem for the students, and d) the creation of real prospects for sustainable social-economic progress for generations to come.

4.2 Practical Example of Opportunity Cost Implication for FY 2016/17 Queried Amounts

31. Among other queries, the audit report of FY 2016/17 indicates that the Ministry of ICT (Information, Communication and Technology) had unsupported pending bills of Kshs.6,604,245. There were no invoices, no delivery notes, no certificates of inspection and acceptances and no stores records; hence, there was no evidence that the Ministry received goods/services.
32. If the Kshs.6,640,245 had been used to employ qualified nurses at a gross salary and allowances per month of Kshs.60,000 per nurse, the queried amount of Kshs. 6,640,245 could cater about 132 nurses and pay them comfortably for one month. Such use of public resources would be immensely beneficial to the overall quality of life of the nurses and their families, the realisation of healthier communities, and a step towards addressing the persistent unemployment problem. The multiplier effect of employing qualified health professionals would be incalculably enormous for the County and the country as a whole.
33. The necessary computations are shown in **Table N** below.

Table M: Opportunity Cost Computation for FY 2016/17

Description	Kshs
Total amount available	6,604,245
Less: Salary for nurses; 132 x 50,000/-	(6,600,000)
Rounding difference	4,245

Source: Author's calculations

4.3 Practical Example of Opportunity Cost Implication for FY 2017/18 Queried Amounts

34. Among many other queries, the audit report of FY 2017/18 indicates that projects amounting to **Kshs.93,760,777** had been budgeted for under the Department of Trade but none had been implemented during that FY. The OAG noted that the non-implementation of budgeted and approved projects denies citizen much the needed services.

35. If Kshs.93,760,777 was, for instance used to establish a revolving Youth Enterprise Fund under the Department of Trade, then the Department could sustainably provide soft business start-up or growth loans to the county's youth. Assuming a maximum loan of Kshs.200,000 for each application and a ceiling of 5% for administration fees, the fund could provide in excess of 450 youth enterprise loans in one financial year. After some time, this initiative would take off substantial numbers of idle youth from the street and check the growth of much anti-social behaviour.
36. The necessary computations are shown in **Table O** below.

Table N: Opportunity Cost Computation for FY 2016/17

Description	Kshs
Total approved project budget	93,760,777
Less: Estimated administration cost	(4,688,038)
Funds available soft loans to youth	89,072,739
Divide by maximum loan amount of	200,000
Minimum number of individual loans in one FY	445

Source: Author's calculations

5.0 RECURRING AUDIT QUERIES

5.1 Summary of Number of Recurring Audit Queries

37. The number of audit queries repeated from the prior year or years for each FY under analysis is summarised in **Table O** below.

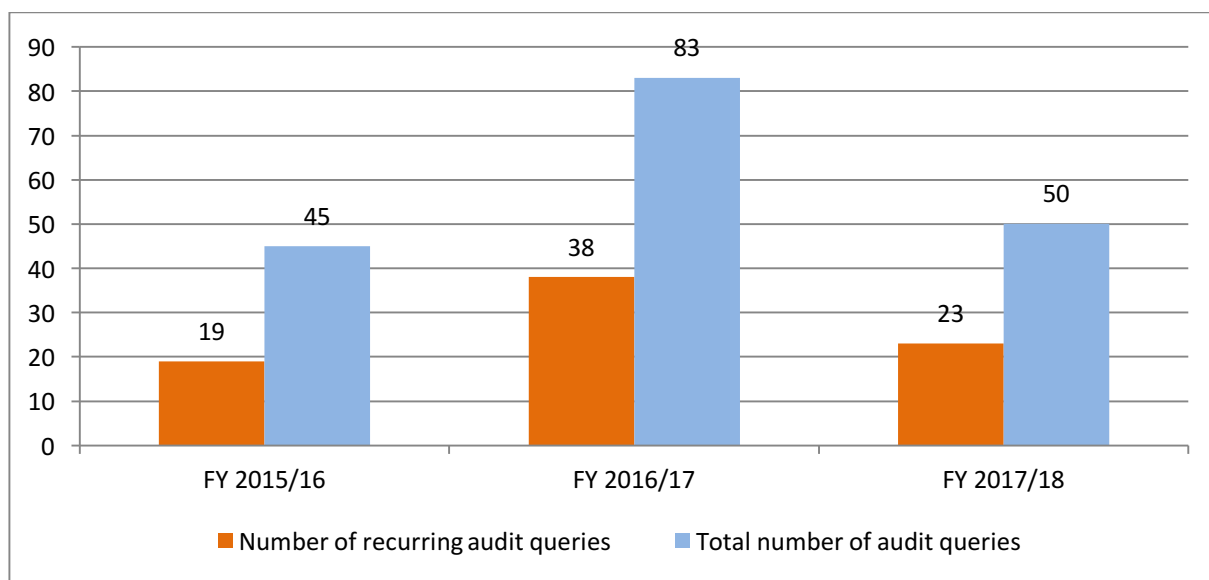
Table O: Summary of Recurring Audit Queries for all three FYs

Summary of Number of Audit Queries	Ref	FY 2015/16	FY 2016/17	FY 2017/18
Number of recurring audit queries	See Table P below	19	38	23
Total number of audit queries		45	83	50
Recurring audit queries as a % of total queries		42%	46%	46%

Source: Analysed from the Auditor General's reports

38. The number of recurring audit queries for each FY is further analysed graphically in **Figure 9** below for a greater appreciation of their import.

Figure 9: Analysis of Number of Recurring Audit Queries against Total Queries



Source: Analysed from the Auditor General reports

5.2 Analysis of Recurring Audit Queries by Main Accountability Themes

39. The main accountability themes under which recurring audit queries have typically arises are provided in **Table P** below.

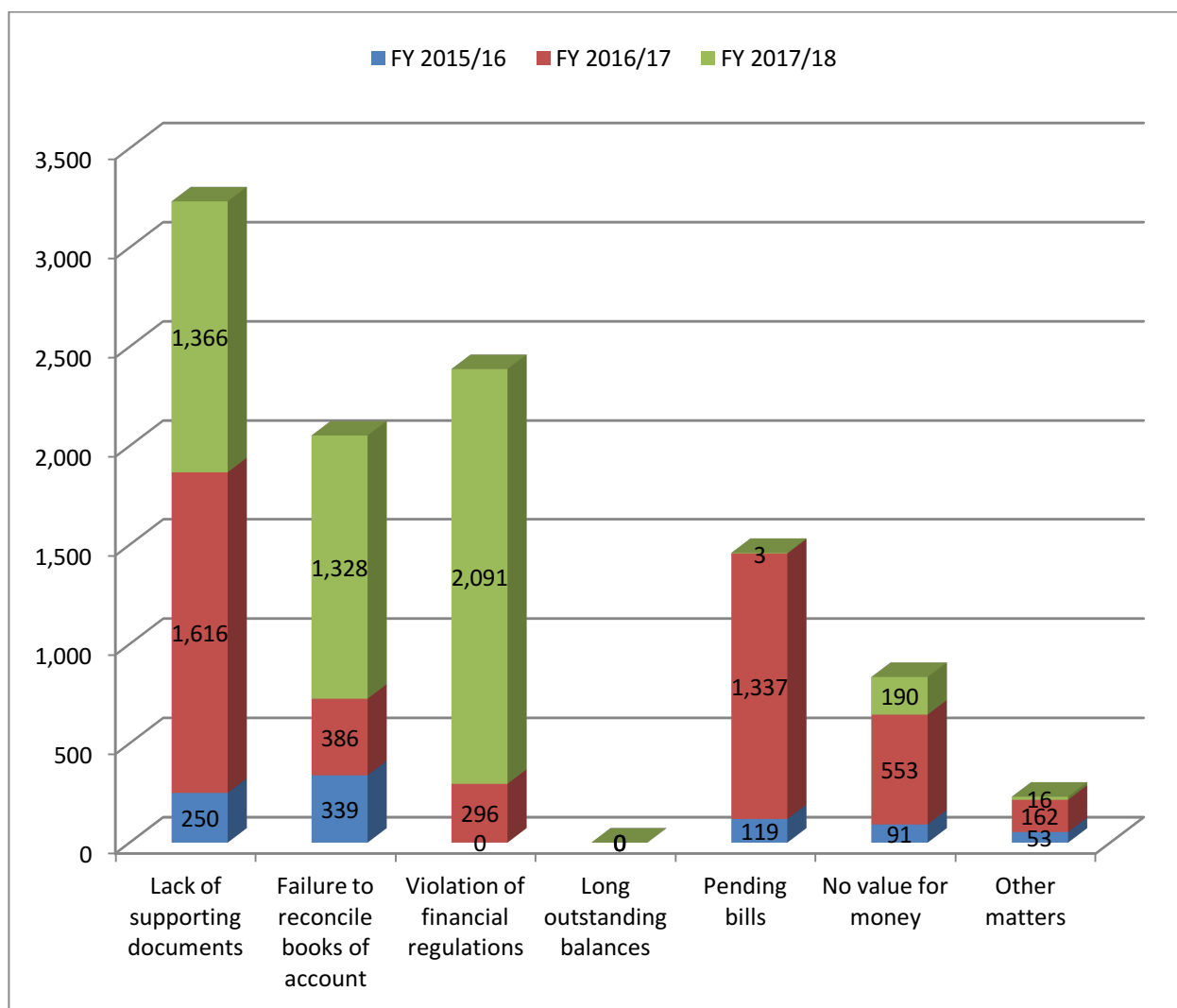
Table P: Main Accountability Classification Themes for Recurring Audit Queries

Classification of Audit Queries	Number of Recurring Key Audit Issues	Specific Audit Queries	Number of Recurring Audit Queries by Financial Year		
			FY 2015/16	FY 2016/17	FY 2017/18
1. Lack of supporting documents	3	i) Unsupported/unexplained contractor deposits and retentions	1	1	0
		ii) Unacknowledged/unsupported bursary and grant payments	1	1	1
		iii) Unsupported and irregular procurements	3	2	2
2. Failure to reconcile books of account	2	i) Failure to reconcile cash books to bank statements	1	1	1
		ii) Lack of cash books for some bank accounts	0	0	1
3. Violation of financial regulations	3	i) Unapproved/unexplained over-budget (excess) expenditure	0	3	6
		ii) Unbudgeted expenditure	0	1	2
		iii) Unauthorised reallocation of budgetary funds	0	0	1
4. Long outstanding balances	0	None	0	0	0
5. Pending bills	4	i) Overstatement of pending bills	1	2	0
		ii) Unsupported or inadequately supported pending bills	1	4	0
		iii) Pending bills against undelivered goods or services	0	3	1
		iv) Accumulation of pending bills	0	1	1
6. No value for money	2	i) Payment incomplete, under-delivered of shoddy works/services	2	3	0
		ii) Doubtful value of expenditure	3	10	4
7. Other matters	6	i) Omitted (unrecorded) expenditures, also un-budgeted	1	0	0
		ii) Understatement of locally generated revenue receipts	2	3	1
		iii) Omission/diversion of locally generated revenue receipts	1	0	0
		iv) Un-banking of locally generated revenue receipts	0	1	0
		v) Employee costs exceeding the regulatory threshold of 35% of total revenue	1	1	1
		vi) Failure to establish an Audit Committee contrary to PFM Regulations	1	1	1
Total	20		19	38	23

Source: Analysed from Auditor General's reports on Nakuru CE for the three FYs

40. From the table above, only long outstanding (staff receivable) balances did not recur over the three financial years. All other accountability queries recurred from one year to the next in varying amounts.
41. Based on **Figure 9** below, the audit queries with the highest direct financial impact that have recurred throughout the three financial years under analysis are;
- Lack of supporting documents,
 - Failure to reconcile books of account,
 - Violation of financial regulations, and
 - Pending bills.

Figure 10: Analysis of Recurring Queried Expenditure for the three Financial Years (In Kshs. M)



Source: Analysed from Auditor General's reports on Nakuru CE for the three FYs

42. As noted elsewhere in this report, one audit query could fall under several of the main accountability classification themes repeated from the prior year or years.

6.0 CONCLUSION AND RECOMMENDATIONS

6.1 Conclusions

43. As the analysis was not a forensic investigation, it is not possible at a glance to conclusively state whether the queried amounts were as a result of either fraudulent or corruptive practices, or human error and mistakes. However, the evident persistent lack of improvement in accountability leading to the substantial growth in queried amounts over the three FYs under analysis provides a reasonable pointer to a high probability of the bulk of the queried amounts being a direct consequence of fraudulent and corruptive practices at Nakuru County.
44. The analysis reveals a general impression that the Nakuru CE management does not take prudent fiduciary management as an important and integral part of overall sound institutional governance, risk management and control environment. Some audit findings are so basic that one would not ordinarily expect to find them, especially bearing in mind that all County ministries are headed and run by qualified and experienced accounting and financial professionals. This may only be attributed to a poor or casual attitude toward prudent fiduciary management or an extremely weak County governance, risk management and control environment.
45. Management and staff attitudes toward the management and protection of public resources evidently seem to have receded so much and personal integrity so impaired, probably due to the promise of quick riches enabled by a poor overall governance and control environment, that a major paradigm shift is manifestly essential.
46. Barring widespread fraudulent activity, which only a full investigation can reveal, it is observed that most, if not all, of the audit queries have underlying basic conditions of poor document filing and record management, poor bookkeeping and accounting practices, poor basic budgetary and fiscal control, poor contract and project management, poor financial reporting skills, and sheer incompetence.

6.2 Recommendations for the County Treasury

47. The inclusion of “financial assets” amounting to Kshs.1.2 Billion in FY 2017/18 and Kshs.1.36 Billion in FY 2016/17 in the expenditure category of “acquisition of assets” is technically incorrect. This is because the expenditure category of “acquisition of assets” is not intended to include non-fixed assets (non-long-lived assets). Therefore, there is a need for the Head of the County Treasury to constantly review account postings to ensure all transactions are appropriately recorded in the correct accounts according to the standard chart of account.
48. As noted by the Auditor General, the financial statements of the Nakuru CE provide a poor presentation and disclosure of pending bills in that specific suppliers, contractors and consultants owed money by the county are not listed; instead, the pending bills are presented as Ministries of the county government, which effectively masks useful information regarding the real county creditors. If the county financial statements are to

satisfy the two fundamental qualitative characteristics of good accounting/financial information, namely, relevance and faithful representation, then the Head of the County Treasury should ensure the appropriate disclosure of all county creditors is provided as per the financial reporting templates issued by the NT through the Public Accounting Standards Board.

49. The Auditor General noted that Nakuru CE failed to disclose long outstanding staff imprests (staff advances) amounting to Kshs.11,235,362 in FY 2015/16. The reason for this non-disclosure or omission was unclear. In order to ensure accurate and complete county financial statements, the Head of the County Treasury should ensure that all transactions are appropriately reported and disclosed.
50. A number of audit queries have been repeated over the years. However, the County does not seem to have taken adequate or any measures to address them. It is, therefore, recommended that Nakuru CE, under the professional guidance of the Head of the County Treasury, should take deliberate steps to ensure all audit queries raised are adequately addressed and satisfactory remedial measures taken to assure non-recurrence in the future.

6.3 Recommendations for the OAG and other Oversight Organs

51. The OAG is encouraged to consider taking steps to contribute to the county's annual financial reporting process in order to improve the quality of the annual county financial statements. Such steps, which clearly are not beyond the scope of the audit, may include, among other things:
 - a) Quality control reviews on the presentation of the county's annual financial statements in order to align them with IPSAS requirements;
 - b) Ensuring the proper presentation of figures, tables, correct language (grammar and spelling); and
 - c) Checking on the general layout of the financial statements and recommending improvements.
52. The oversight organs in-charge of county governments, principally the relevant committees of the County Assembly (CA) and the Senate, are encouraged to step up their oversight roles to ensure the continual efficacious use, reporting and faithful disclosure of public revenue and expenditure in order to guarantee adequate and effective protection of public assets in accordance with the constitution, laws and regulations for the good of all county residents and the public at large. This would instil a sense of respect for public resources so as to entrench on-going provision of meaningful public services that meet, and probably even exceed, the legitimate expectations of the tax-paying public.

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GLOSSARY OF TERMS

The following terms are used in this Manual with the meanings specified in the table below. The terms are arranged alphabetically for ease of reference.

Term	Meaning
Account	A record of monetary transactions, either written into a book designed for the purpose or entered onto a computer file
Accountability	The notion that all management and staff, both in principle and practice, should be fully responsible to each other and to other stakeholders to ensure that public resources are used for the intended purpose efficiently, effectively and economically
Accounting	The process or mechanism for recording/posting project transactions in the County books of account such as the cash book and IFMIS
Accounting basis	The foundation for determining the timing of the recognition and recording of revenues and expenditures
Account code	A code assigned to a specific type of transaction. Transactions are given codes which describes what type of income or expenditure they are, e.g. 2210301-Foreign travel costs; 2211301-Bank charges, etc
Accounting officer	The accounting officer of any County public entity (County Chief Officers) is accountable to the County assembly for its prudent fiduciary management (both financial and procurement management)
Accounting standards	Authoritative rules and principles that define how County financial transactions and events are recognised, interpreted, recorded and reflected in the accounting records and financial statements
Audit	A formal check on the County's reported accounts (financial statements) by an independent third party, the Auditor General
Audit trail	The ability to follow the course of any reported transaction or balance through the County's accounting system and records, and vice versa
Authorisation	This is the process of approval over transactions, normally the decision to purchase or commit expenditure. Authorisation by a budget holder is a way of confirming that intended spending is in line with the budget and is appropriate.
Authorised signatories	County officers who are authorised to sign cheques or authorise EFT payments on behalf of the County or a County entity
Bank reconciliation	The process of comparing the entries and ending balance in the cash book with the bank statement, and identifying any differences for subsequent follow up. It provides an important check on the completeness and accuracy of the cash book entries and helps to confirm the reliability of the reported cash/bank balances
Bank statement	A report a bank makes, usually on a monthly basis, to the County showing its deposits, withdrawals, other charges, and closing bank balance for each County bank account
Budget	A periodic "best" estimate of the amount of funds that the County plans to raise and spend for set purposes over a given period of time, usually one financial year
Budget circular	A written instruction issued by the County Executive Committee Member for Finance providing broad guidelines on the budget process of the County Government and its entities
Budget holder	The individual who holds the authority and has the responsibility for managing the County budget for a specified ministry, activity, project, programme, department or institution
Budget ceiling	The maximum amount that the county government allocates in a given year to target sectors or expenditure categories
Burn rate	Also known as the Utilisation Ratio and expressed as a percentage, it is the amount of the County budget used up so far (e.g. at the end of the FY
Cash basis of accounting	System of accounting that recognises or records revenues only when money is received and expenditures only when money is paid out
Cash book	A book or spread-sheet that lists all of the receipts and payments made into and out of a particular bank or cash account, with a periodic "balancing off" to obtain the balance remaining after spending
Commitment	An allocation against the budget for a prospective liability, before the liability is incurred or

Term	Meaning
	precisely determined. Commitments do not always translate into liabilities; sometimes work is not performed or goods are not delivered. They need to be reasonably estimated and tracked/monitored to avoid budget overruns
County revenue fund	A account for each county government, into which is paid all money raised or received by or on behalf of the county government, except money reasonably excluded by an Act of Parliament
Petty cash reconciliation	The process of comparing the month end physical petty cash (standing imprest) balances as counted to the expected month end balance in the petty cash book
Cash flow forecast	A report that shows the expected timing of receipts and payments for the next 3-6 months (or longer, if required)
Chart of accounts	A list of all the accounts codes that are used in the County Government's accounting system, with a description of each (as to what should be posted or recorded in each specific account code)
Conditional allocations	Additional resources allocated to the County Government from revenues raised nationally or in the form of loans and grants from development partners
Double funding	Occurs where a County activity has funding from more than one source and which exceeds the budget needed to complete the activity
External audit	A review of the year-end financial statements carried out by a professionally qualified and legally registered auditor resulting in an opinion about whether the financial statements give a true and fair view
Fixed asset	An item of high value owned by the project for use over a long period. Normally office equipment, vehicles and property
Fixed assets register	A list of the fixed assets of the project, usually giving details of purchase date, cost, serial numbers, location, condition, etc.
Standing imprest	A type of cash float, set at an agreed level, which is topped up by the exact amount spent since it was last reimbursed/replenished, to bring it back to its original agreed level
Irregular expenditure	Means expenditure, including unauthorised and unsupported expenditure, incurred in contravention of or that is not in accordance with a requirement of any relevant legislation, regulations
Payment voucher	An internal document prepared for each payment, providing a unique reference number and evidence of authorisation. Supporting documents are attached to it
Reconciliation	The checking mechanism which verifies the integrity of different parts of an accounting system, especially balancing the cash book to the bank statement
Spending unit	Refers to a county ministry, department or entity for which appropriation is allocated within the budget and which is authorised to spend county funds
Supplementary budget	Means additional request for funds by the CE made to the CA and Parliament
Supporting documents	The original documents that describe each transaction. These may include, receipts, invoices, contracts, delivery notes, training/workshop participants' sign sheets, etc
Transaction	Any exchange of goods, services or money in return for other goods, services or money – most commonly receipts and payments
Temporary (safari) imprest	A cash advance issued to county officers for specific purposes, usually to cater for official travel expenses, intended to provide officers with funds with which they can meet travelling, accommodation and incidental expenses; any payments made from the imprest funds must be only for the specified and approved official purposes
Unauthorised expenditure	Means overspending of a vote or budget line within a vote or expenditure not in accordance with the purpose of a vote
Vote book	An accounts book which is used to record and monitor expenditure in the public sector
Variance	The difference between the budget and the actual amount of income or expenditure
Financial year end	The cut-off point for the annual financial accounting period. Usually, annual financial statements are prepared as of this date

Other terms not defined above but used in this Report are defined or explained where they appear in the text.

ANNEX 1: MEANING OF AUDIT OPINIONS

The meaning of the each type of audit opinion which potentially can be used by the Auditor General is provided in below.

Auditor's Opinion	Meaning or Interpretation
Unmodified or unqualified Opinion	<ul style="list-style-type: none"> An unmodified or unqualified opinion contains the “standard clean wording” and is the best possible outcome -- a clear “thumbs up” or a “clean bill of health”. It is issued when the Auditor General has obtained sufficient appropriate audit evidence is therefore able to reasonably conclude that the county financial statements are free from material misstatements and are presented in accordance with the applicable financial reporting framework, i.e., IPSAS – therefore, the county financial statements portray a “<i>true and fair view</i>” of (or <i>present fairly, in all material respects</i>) the county’s financial position, performance and cash flows However, this opinion provides only reasonable, but not absolute, assurance about the reliability of the county financial statements, which form the scope of the external audit engagement. In this context then, the opinion is not indicative of a positive assessment of the county’s overall operations and activities The opinion is also not a 100% guarantee that there are no errors or misstatements present within the county’s financial statements – this is because auditors do not test all transactions and balances, but samples drawn from those transactions and balances
Qualified Opinion	<ul style="list-style-type: none"> A qualified opinion means the Auditor General has obtained sufficient appropriate audit evidence that the CE’s financial statements generally portray a “<i>true and fair view</i>” of (or <i>present fairly, in all material respects</i>) the county’s financial position, performance and cash flows except for a certain identified matter or matters on which there was not sufficient appropriate audit evidence to meet the Auditor’s threshold for satisfactory evidence It is expressed when the Auditor General concludes that misstatements, individually or in aggregate, are material, but not pervasive, to the county financial statements – e.g. significant unsupported expenditures, serious violations of laws and regulations, etc
Adverse Opinion	<ul style="list-style-type: none"> An adverse opinion means the Auditor General has obtained sufficient appropriate audit evidence that the county’s financial statements do not portray a “<i>true and fair view</i>” of (or <i>do not present fairly, in all material respects</i>) the county’s financial position, performance and cash flows The Auditor General concludes that the misstatements, individually or in the aggregate, are both material and pervasive to the county’s financial statements
Disclaimer of Opinion	<ul style="list-style-type: none"> Here, the Auditor General disclaim an opinion because he is unable to obtain sufficient appropriate audit evidence on which to base his opinion, and he concludes that the possible effects on the county financial statements of undetected misstatements, if any, could be both material and pervasive to the county financial statements Disclaimer can be due to a severe limitation of the scope of the audit or a non-independent relationship between the Auditor General and the county Therefore, the Auditor General excuses himself from making an opinion

Source: Author’s professional reading, knowledge and experience

ANNEX 2: DETAILED LISTING OF QUERIED AMOUNTS FOR FY 2015/16

The table below provides details of the queried expenditure and revenue items as analysed from the annual Auditor General's Report for FY 2015/16 for Nakuru CE (in Kshs).

Financial Year: 2015/2016			Ref in Audit Report	Financial Effect on Overall Expenditure	Category Sub-Total	Remarks
Classification of Audit Queries	Number of Audit Queries	Specific Audit Queries				
1. Lack of supporting documents	10 queries	i) Unsupported supplier/contractor deposits and retentions (accounts payable)	7	23,782,749	250,333,746	
		ii) Unsupported foreign travel by County Public Service Board	11	4,858,633		
		iii) Unsupported development expenditure by County Ministry of Trade	12	27,599,908		
		iv) Inadequately supported insurance payments to M/S Amaco Insurance Company	13.1	7,575,000		
		v) Doubtful expenditure - Miss Tourism Beauty Pageant	13.2	9,889,696		
		vi) Supply and delivery of fishmeal and farm inputs to undisclosed beneficiaries	13.4	3,268,000		
		vii) Cash purchase and delivery of fertiliser and food items to undisclosed IDPs	13.5	4,534,200		
		viii) Purchase of tools, equipment and materials without evidence of any procurement process	13.6	2,996,071		
		ix) Unsupported bursary payments (under "Other Matters")	5	99,766,222		
		x) Overstatement of expenditure on use of goods and services	4	66,063,267		
2. Failure to reconcile books of account	3 queries	i) Failure to reconcile cash books to bank statements in the last quarter (April to June)	2.1	0	338,617,170	No financial effect given
		ii) Single Business Permit fee receipts - unreconciled understatement variance	2.4	1,047,794		
		iii) Compensation of employees - unreconciled overstatement variance	3 (a)	337,569,376		
3. Violation of financial regulations	0 query	None	-	0	0	
4. Long	0 query	None	-	0	0	

Financial Year: 2015/2016			Ref in Audit Report	Financial Effect on Overall Expenditure	Category Sub-Total	Remarks
Classification of Audit Queries	Number of Audit Queries	Specific Audit Queries				
outstanding balances						
5. Pending bills	2 queries	i) Significant overstatement casting/arithmetical error in pending accounts payable	8	27,738,795	118,827,723	
		ii) Unsupported pending bills in respect of acquisition of intangible assets	5	91,088,928		
6. No value for money	6 queries	i) Doubtful value in re-roofing of Arthi House Nakuru - no technical justification available	13.3	3,988,158	91,275,274	
		ii) Under-delivered/shoddy construction project against full contract payment (Under "Other Matters")	9.2	3,849,408		
		iii) Incomplete and stalled Nasha Market Stalls project - with unapproved structural alterations ("Other Matters")	9.3	23,049,628		
		iv) Construction of market stalls inside a road round-about: susceptible to demolition by KURA ("Other Matters")	9.4	4,872,725		
		v) Incomplete and unequipped borehole projects ("Other Matters")	7	40,515,355		
		vi) Reallocation of funds from waterworks repairs leading to increased water system losses of 50% ("Other Matters")	8	15,000,000		
7. Other matters	4 queries	i) Omitted or diverted vehicle parking fee revenue receipts, hence revenue understated	2.2	29,799,900	53,134,451	
		ii) Understatement or diversion of vehicle parking fee revenue receipts	2.2	3,894,320		
		iii) Understatement of receipts from building plans/structural drawings approvals	2	8,204,869		
		iv) Non-disclosure (omission) or write-off of overdue/unsupported staff imprests	10	11,235,362		
Total	25 queries	Total Queried Expenditure		852,188,364	852,188,364	

Source: Analysed from Audit General's Report on the financial statements of Nakuru CE for FY 2015/16

ANNEX 3: DETAILED LISTING OF QUERIED AMOUNTS FOR FY 2016/17

The table below provides details of the queried expenditure and revenue items as analysed from the annual Auditor General's Report for FY 2016/17 for Nakuru CE.

Financial Year: 2016/2017 (in Kshs)			Ref in Audit Report	Financial Effect on Overall Expenditure	Category Sub-total	Remarks
Classification of Audit Queries	Number of Audit Queries	Specific Audit Queries				
1. Lack of supporting documents	6 queries	i) Unexplained and unsupported expenditure on domestic non-public financial enterprises	7.2	1,356,390,962	1,616,172,255	
		ii) Unacknowledged/unsupported bursary payments	8.1	52,697,522		
		iii) Unsupported administration costs	8.1	1,720,000		
		iv) Irregular and inappropriately supported procurement of sports items; also poorly documented	8.2	13,750,000		
		v) Unexplained and unsupported decrease in suppliers' deposits and retentions payable	10	19,895,179		
		vi) Inconsistently (contradictorily) dated supporting documentation	14.4 (a)	171,718,592		
2. Failure to reconcile books of account	4 queries	i) Unreconciled overstatement variance in compensation of employees	4 (ii)	316,144,805	385,884,691	
		ii) Unreconciled overstatement of the cost of use of goods and services	6	88,762,202		
		iii) Unreconciled understatement of cost of acquisition of assets	7.1	-19,022,316		Negative financial effect
		iv) Cash books not reconciled to bank statements	9	0		No definite financial effect given
3. Violation of financial regulations	4 queries	i) Unapproved and unexplained over-budget expenditure on compensation of employees	4 (iii)	83,903,748	295,826,415	
		ii) Ministry of Health - unexplained over-budget expenditures	13.2 (a)	28,616,563		
		iii) Ministry of Education - unexplained over-budget expenditure on acquisition of land	14.4 (b)	27,510,014		
		iv) Un-budgeted expenditures on Afraha	14.5 (a)	155,796,090		

Financial Year: 2016/2017 (in Kshs)			Ref in Audit Report	Financial Effect on Overall Expenditure	Category Sub-total	Remarks
Classification of Audit Queries	Number of Audit Queries	Specific Audit Queries				
		Stadium by various ministries – also performing works in an uncoordinated fashion on the same stadium				
4. Long outstanding balances	0 query	None noted (omission or write off of overdue/unsupported staff imprests of 11,235,362/- noted in previous year but not followed and reported on by the OAG)	0	0	0	This issue was not followed up and reported on by the OAG from FY 2015/16
5. Pending bills	10 queries	i) Overstatement of pending bills - cancelled contract included as part of pending bills	11.3	10,620,032		
		ii) Substantial accumulation of development pending bills from FY13/14 (4M) to FY16/17 (1B)	11.3	0		Poor fiscal discipline
		iii) Overstatement of pending bills - Ministry of Environment	11.4 (i)	17,621,367		
		iv) Undelivered/unsupplied garbage compactor and refuse collection truck included in pending bills	11.4 (ii)	20,000,000		
		v) Water bowser supplied but repossessed by CMC Motors - supplier still listed under pending bills	11.4 (iii)	12,232,200		
		vi) Project works in Hellsgate Ward not yet commenced by contractor listed among pending bills	11.4 (iv)	6,999,000		
		vii) Unsupported pending bills for ICT ministry	11.5	6,604,245		
		viii) Unsupported pending bills owing to third parties - no list of the third parties	11.6	326,880,175		
		ix) Unsupported credit facility for staff members included in staff pending bills	11.7	90,000,000		
					1,336,854,111	

Financial Year: 2016/2017 (in Kshs)			Ref in Audit Report	Financial Effect on Overall Expenditure	Category Sub-total	Remarks
Classification of Audit Queries	Number of Audit Queries	Specific Audit Queries				
		x) Lack of or scanty information on substantial pending legal fees balances	13.3 (b)	845,897,092		
6. No value for money	15 queries	i) Payment of legal fees to county employee and his law firm (conflict of interest)	13.3 (a)	10,000,000	553,063,631	
		ii) Payment for incomplete works - asset management system	14.1	3,800,000		
		iii) County valuation roll never tabled for adoption since 2015 yet contract paid off and has lapsed	14.2 (a)	43,413,980		
		iv) Draft 10-year county spatial devt plan (2014-24) never tabled for adoption since FY214/15	14.2 (b)	114,975,996		
		v) Boreholes drilled but not equipped; borehole drilled 14 metres from a NG borehole which has no water	14.3 (a)	15,953,494		
		vi) Incomplete Kirobon community water project - completed but no water supplied to residents	14.3 (b)	3,926,536		
		vii) De-silting of storm water retention pond - complete but highly unlikely to be useful/functional	14.3 (c)	6,020,000		
		viii) Supply, installation and maintenance of solar street lights - not functional and maintenance by contractor not evident	14.5 (c)	25,203,663		
		ix) Physically unverifiable supply and installation of street floodlights as not labelled – without labels, not possible to verify with any degree of certainty	14.5 (d)	140,506,078		
		x) Diversion of KRB projects' funds to other unidentified uses	14.5 (e)	108,695,369		
		xi) Spot improvement and routine	14.5 (f)	13,414,800		

Financial Year: 2016/2017 (in Kshs)			Ref in Audit Report	Financial Effect on Overall Expenditure	Category Sub-total	Remarks
Classification of Audit Queries	Number of Audit Queries	Specific Audit Queries				
		maintenance of Print House Road – incomplete and shoddy work done				
		xii) Incomplete and shoddy repairs and spot maintenance of Kivumbini Drain	14.5 (g)	5,000,000		
		xiii) Project allocated funds and AIEs issued but not implemented - auction mobile market and milk coolers	14.6 (a)	31,413,545		
		xiv) Markets completed but not in use - 3 markets involved: 2 in Free Area and 1 in Menengai	14.6 (b)	13,762,196		
		xv) Land information management system (LIMS) - contract lapsed with no clear deliverables evident	13.2 (c)	16,977,974		
7. Other matters	5 queries	i) Ministry of Health - omitted expenditures, also not budgeted for	13.2 (b)	921,512	162,324,201	
		ii) Under-banking of local revenue receipts	1.1	113,358,338		
		iii) Understatement of single business permit revenue receipts	1.2	18,204,041		
		iv) Understatement of reserved vehicle parking fees revenue receipts	1.3	21,199,010		
		v) Understatement of vehicle clamping fees revenue receipts	1.3	8,641,300		
Total	44 Queries	Total Queried Expenditure		4,350,125,304	4,350,125,304	

ANNEX 4: DETAILED LISTING OF QUERIED AMOUNTS FOR FY 2017/18

The table below provides details of the queried expenditure and revenue items as analysed from the annual Auditor General's Report for FY 2017/18 for Nakuru CE.

Financial Year: 2017/2018 (in Kshs)			Ref in Audit Report	Financial Effect on Overall Expenditure	Sub-total	Remarks
Classification of Audit Queries	Number of Audit Queries	Specific Audit Queries				
1. Lack of supporting documents	11 Queries	i) Unexplained and unsupported expenditure on additions to heritage and cultural assets	1	1,134,327,407	1,365,796,982	
		ii) Unsupported and irregularly procurement expenditure on motor vehicle - Ministry of Finance	4.2	13,832,500		
		iii) Unsupported loan interest repayments to a bank at Kshs.3,709,130 per month	4.3	44,509,561		
		iv) Irregular and unsupported waiver of taxes	4.4	6,373,050		
		v) Unsupported payment of night-out allowances to 78 MCAs for 7 days for Machakos KICOSCA	6.2	4,586,400		
		vi) Unsupported/unacknowledged payment of conditional grants to polytechnics & vocational training centres	6.3	26,005,000		
		vii) Unsupported and irregular variation and extension of medical insurance contract for senior staff	7.1	4,604,970		
		viii) Unsupported and doubtful payment for legal fees	7.2	4,087,028		
		ix) Final payment of 30% of contract sum for Nakuru County Valuation Roll paid before final approval of product	8.1	14,958,385		Also a value-for-money issue
		x) Irregular/unsupported purchase of 20.96 acre cemetery land in Maai Mahiu - conditions of contract not fulfilled	9.1	16,768,000		
		xi) Unsupported medical equipment supply lease agreement with national Ministry of Health	9.2	95,744,681		Actual payments not established
2. Failure to reconcile books of account	2 queries	i) Unreconciled overstatement variance in compensation of employees	3.0	34,639,154	1,327,815,243	
		ii) Lack of cash books and unreconciled cash books to bank statements	1.0	1,293,176,089		

Financial Year: 2017/2018 (in Kshs)			Ref in Audit Report	Financial Effect on Overall Expenditure	Sub-total	Remarks
Classification of Audit Queries	Number of Audit Queries	Specific Audit Queries				
3. Violation of financial regulations	8 queries	i) Unapproved over-budget expenditure on other grants and transfers	1.1	669,110,520	2,091,361,276	
		ii) Unapproved over-budget expenditure on other payments	1.1	115,800,808		
		iii) Unapproved over-budget expenditure on transfers to other government entities	1.1	1,064,527,057		
		iv) Unapproved over-budget expenditure on use of goods & services - utilities, supplies & services	1.1	56,076,507		
		v) Unauthorised, irregular and unsupported excess expenditure on legal fees - Ministry of Finance	4.1	93,596,580		
		vi) Unapproved over-budget expenditure on electricity by Ministry of Roads	11.1	29,487,595		
		vii) Unbudgeted expenditures for the Ministry of Public Services concealed in a revenue account	7.3	58,878,849		
		viii) Unbudgeted expenditure for the Ministry of Roads - routine maintenance of Kenyatta Avenue Lane	11.2	3,883,360		
4. Long outstanding staff imprest balances	0 queries	None noted (omission or write off of overdue/unsupported staff imprests of 11,235,362/- noted in FY 2015/16 but not followed and reported on by the OAG)	-	0	0	Like in FY 2016/17, this issue was not followed up by the OAG in FY 2017/18
5. Pending bills	2 queries	i) Substantial build-up of pending bills of Kshs.1,912, 812,405 as at 30-Jun-2018	5.0	0	2,961,344	Affects budget for the following FY
		ii) Incomplete and abandoned Oljorai borehole project cost included in pending bills	10	2,961,344		Also a value-for-money issue
6. No value for money	5 queries	i) Construction of very tiny market stalls and very high roof in Molo sub-county, not serving intended use	5.2	3,808,865	189,704,158	
		ii) Draft 10-year county spatial devt plan (2014-24) never tabled for adoption since FY214/15	8.2	122,736,516		
		iii) Non-functional X-ray machine supplied to Elburgon Hospital - also over-budgeted/overspent by Kshs.1M	9.3	2,500,000		

Financial Year: 2017/2018 (in Kshs)			Ref in Audit Report	Financial Effect on Overall Expenditure	Sub-total	Remarks
Classification of Audit Queries	Number of Audit Queries	Specific Audit Queries				
		iv) Physically unverifiable supply and installation of street floodlights as not labelled	11.3	53,033,324		
		v) Land information management system (LIMS) - contract lapsed with no clear deliverables evident	8.3	7,625,453		
7. Other matters	2 queries	i) Unauthorised reallocation of funds from foreign travel to other uses	1.3	2,430,502	15,523,102	
		ii) Understatement of vehicle clamping fees revenue	4.0	12,992,600	12,992,600	
Total	30 Queries	Total Queried Amount		4,993,062,105	4,993,062,105	