

# **REPORT OF THE AUDITOR-GENERAL ON COUNTY EXECUTIVE OF BUNGOMA FOR THE YEAR ENDED 30 JUNE 2018**

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## **REPORT ON THE FINANCIAL STATEMENTS**

### **Qualified Opinion**

I have audited the accompanying financial statements of the County Executive of Bungoma set out on pages 1 to 87, which comprise the statement of assets and liabilities as at 30 June 2018, and the statement of receipts and payments, statement of cash flows, statement of appropriation: recurrent, development and combined and budget execution by programmes and sub-programmes for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, except for the effect of the matters described in the Basis for Qualified Opinion section of my report, the financial statements present fairly, in all material respects, the financial position of the County Executive of Bungoma as at 30 June 2018 and of its financial performance and its cash flows for the year then ended, in accordance with the International Public Sector Accounting Standards (Cash Basis) and comply with the Public Finance Management Act, 2012.

### **Basis for Qualified Opinion**

#### **1. Accounts Payables-Deposits and Retention**

The accounts payables- deposits and retentions figure of Kshs.219,985,327 differs with the confirmed bank balance figure of Kshs.141,500,862 resulting into un-reconciled difference of Kshs.78,484,675.

In the circumstances, it was not possible to confirm accuracy of the payables, deposits and retention balance of Kshs.219,985,327.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the County Executive of Bungoma in accordance with ISSAI 30 on Code of Ethics. I have fulfilled other ethical responsibilities in accordance with the ISSAI and in accordance with other ethical requirements applicable to performing audits of financial statements in Kenya. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

### **Key Audit Matters**

Key audit matters are those matters that, in my professional judgement are of most significance in the audit of the financial statements. Except for the matters described in

the Basis for Qualified Opinion section of my report, I have determined that there are no key audit matters to report.

## Other Matter

### 1. Budgetary Performance and Control

#### 1.1 Overall Budgeted Performance

During the year under review, the management budgeted for total expenditure of Kshs.11,229,708,334, comprising recurrent allocation of Kshs.7,746,659,098(69% of total budget) and development allocation of Kshs.3,483,049,236 (31% of total budget) From the approved budget, the County incurred actual total expenditure of Kshs.8,774,624,422 comprising recurrent expenditure of Kshs.7,464,410,420 (85% of total expenditure) and development expenditure of Kshs.1,310,214,002 (15% of total expenditure). The County incurred the overall actual expenditure/budget absorption ratio of 96% and 38% of recurrent and development votes respectively, resulting into significant budget absorption drop in development vote as detailed below.

	<b>Budget Allocation 2017/2018</b>	<b>Actual Expenditure 2017/2018</b>			
	<b>Kshs.</b>	<b>Kshs.</b>	<b>Budgeted per Vote</b>	<b>Actual per Vote</b>	<b>Absorption Rate</b>
			<b>%</b>	<b>%</b>	<b>%</b>
<b>Vote</b>					
Recurrent Expenditure	7,746,659,098	7,464,410,420	69%	85%	96%
Development Expenditure	3,483,049,236	1,310,214,002	31%	15%	38%
<b>Total</b>	<b>11,229,708,334</b>	<b>8,774,624,422</b>	<b>100%</b>	<b>100%</b>	<b>78%</b>

#### 1.2 Detailed Budget Variance Analysis

There were instances where the budget was either over/under spent by more than +10% or -10% as detailed in the table below. Some expenditure lines of the County Executive were not in accordance with approved budget appropriations while others were not budgeted for at all. In addition, the compensation to employees expenditures was Kshs.4,261,626,702 vis-a-vis budgeted amount of Kshs.4,007,384,869 resulting to an additional increase of employees cost by Kshs.254,241,833 or 6%. The over-expenditures were not approved.

<b>Appendix I-Detailed Budget Variance Analysis</b>				
<b>Title and Details</b>	<b>Recurrent Budget Kshs.</b>	<b>Actuals Kshs.</b>	<b>Variance Kshs.</b>	<b>Variance %</b>
Basic Salaries - Permanent Employees	3,715,824,594	4,046,206,882	-330,382,288	-9%
Basic Wages - Temporary Employees	155,349,505	150,001,081	5,348,424	3%
Personal Allowances paid as part of Salary	121,152,600	63,167,949	57,984,651	48%
Personal Allowances paid as Reimbursements	8,808,175	-	8,808,175	100%
Employer Contributions to Compulsory National Social Security Schemes	6,249,995	2,250,790	3,999,205	64%
	<b>4,007,384,869</b>	<b>4,261,626,702</b>	<b>-254,241,833</b>	<b>-6%</b>
<b>Use of Goods &amp; Services</b>				
Utilities, Supplies and Services	42,473,276	41,458,720	1,014,556	2%
Communication, Supplies and Services	17,637,948	13,968,965	3,668,983	21%
Domestic Travel and Subsistence, and Other Transportation Costs	197,959,574	157,221,672	40,737,902	21%
Foreign Travel and Subsistence, and other transportation costs	11,690,508	12,445,964	-755,456	-6%
Printing , Advertising and Information Supplies and Services	59,693,240	49,706,836	9,986,404	17%
Rentals of Produced Assets	30,979,984	10,458,640	20,521,344	66%
Training Expenses	171,383,554	173,957,602	-2,574,048	-2%
Hospitality Supplies and Service	239,830,613	259,622,209	-19,791,596	-8%
Insurance Costs	23,296,268	96,670,337	-73,374,069	-315%
Specialized Materials and Supply	182,747,115	216,582,580	-33,835,465	-19%
Office and General Supplies and Services	50,906,400	34,689,394	16,217,006	32%
Fuel Oil and Lubricants	101,484,215	90,472,348	11,011,867	11%
Other Operating Expenses	683,310,248	287,735,185	395,575,063	58%
Routine Maintenance - Vehicles	62,565,661	24,633,783	37,931,878	61%

<b>Appendix I-Detailed Budget Variance Analysis</b>				
<b>Title and Details</b>	<b>Recurrent Budget Kshs.</b>	<b>Actuals Kshs.</b>	<b>Variance Kshs.</b>	<b>Variance %</b>
Routine Maintenance - Other Assets	409,961,044	49,830,776	360,130,268	88%
	<b>2,285,919,648</b>	<b>1,519,455,009</b>	<b>766,464,639</b>	<b>34%</b>
<b>Other Grants &amp; Transfers</b>				
Other Capital Grants and Trans	1,096,101,891	646,385,558	449,716,333	41%
	<b>1,096,101,891</b>	<b>646,385,558</b>	<b>449,716,333</b>	<b>41%</b>
<b>Social Security Benefits</b>			-	
Government Pension and Retirement Benefits	44,182,355	29,034,310	15,148,045	34%
	<b>44,182,355</b>	<b>29,034,310</b>	<b>15,148,045</b>	<b>34%</b>
<b>Acquisition of Assets</b>				
Construction of Building	12,000,000	25,667,351	- 13,667,351	-114%
Refurbishment of Buildings	10,202,311	5,962,391	4,239,921	42%
Construction and Civil Works	939,412,036	433,967,149	505,444,887	54%
Overhaul and Refurbishment of Construction and Civil Works	544,023,803	156,431,209	387,592,594	71%
Purchase of Vehicles and Other Transport Equipment	6,250,000	5,500,000	750,000	12%
Purchase of Household Furniture and Institutional Equipment	794,110	1,467,901	- 673,791	-85%
Purchase of Office Furniture and General Equipment	128,234,990	49,455,208	78,779,782	61%
Purchase of Specialized Plant, Equipment and Machinery	38,150,475	4,493,837	33,656,638	88%
Purchase of Certified Seeds, Breeding Stock and Live Animals	69,091,200	62,459,300	6,631,900	10%
Research, Feasibility Studies, Project Preparation and	22,582,477	21,870,371	712,106	3%

<b>Appendix I-Detailed Budget Variance Analysis</b>				
<b>Title and Details</b>	<b>Recurrent Budget Kshs.</b>	<b>Actuals Kshs.</b>	<b>Variance Kshs.</b>	<b>Variance %</b>
Design, Project Supervision				
Rehabilitation of Civil Works	50,135,901	-	50,135,901	100%
Acquisition of Strategic Stocks	183,941,341	172,833,000	11,108,341	6%
Acquisition of Land	40,000,000	-	40,000,000	100%
Acquisition of Other Intangible Assets	5,000,000	350,000	4,650,000	93%
	<b>2,049,818,644</b>	<b>940,457,716</b>	<b>1,109,360,928</b>	<b>54%</b>
<b>Other Payments</b>				
Supplier Credits	827,288,890	483,433,670	343,855,220	42%
<b>Total Executive</b>	<b>10,310,696,297</b>	<b>7,880,392,966</b>	<b>2,430,303,331</b>	<b>24%</b>
<b>Transfers to County Assembly</b>	<b>919,012,037</b>	<b>894,231,457</b>	<b>24,780,580</b>	<b>3%</b>
<b>Grand Total Recurrent</b>	<b>11,229,708,334</b>	<b>8,774,624,423</b>	<b>2,455,083,911</b>	<b>22%</b>

### 1.3 Expenditure Analysis Per Ministries

Further analysis by various Ministries shows that the Finance and Planning had the highest overall absorption rate of 89% while Land, urban and physical Planning had the least overall absorption rate at 25% as analyzed below:

<b>Ministry</b>	<b>Budgeted Allocations</b>		<b>Actual Expenditure</b>		<b>Absorption rate %</b>		
	<b>Recurrent Kshs.</b>	<b>Development Kshs.</b>	<b>Recurrent Kshs.</b>	<b>Development Kshs.</b>	<b>Rec</b>	<b>Dev</b>	<b>Overall</b>
Agriculture, livestock, fisheries and co-op development	404,253,214	440,655,456	385,389,161	255,526,827	95%	58%	76%
Tourism, Forestry, environment Water and natural resource	145,672,517	410,988,964	75,751,612	149,879,261	52%	36%	41%
Roads and Public works	168,672,552	1,200,287,706	148,125,625	619,191,673	88%	52%	56%
Education, Youth and sports	1,243,426,214	250,444,288	1,221,907,517	-	98%	0%	82%
Health	2,519,862,109	182,859,753	2,391,370,313	66,834,589	95%	37%	91%

Ministry	Budgeted Allocations		Actual Expenditure		Absorption rate %		
	Recurrent Kshs.	Development Kshs.	Recurrent Kshs.	Development Kshs.	Rec	Dev	Overall
Trade, energy and industrialization	49,555,801	157,728,284	39,294,976	101,414,968	79%	64%	68%
Lands, Urban and Physical Planning	72,146,405	182,631,796	48,418,486	16,144,128	67%	9%	25%
Gender, Culture,	104,130,398	33,844,644	69,927,371	-	67%	0%	51%
Housing and Sanitation	30,012,925	73,480,807	26,613,062	48,067,285	89%	65%	72%
County Assembly	755,249,331	163,762,706	818,778,137	75,453,320	108%	46%	97%
Finance and Planning	1,305,443,188	323,042,936	1,323,304,849	123,597,423	98%	38%	89%
County Public Service	60,456,350	-	51,700,064	-	86%	0%	86%
Governors & D/Governor's office	409,012,755	2,598,078	348,657,058	-	85%	0%	85%
Public Administration & County Secretary	478,765,343	60,723,818	342,219,862	27,056,857	71%	45%	68%
<b>Totals</b>	<b>7,746,659,102</b>	<b>3,483,049,238</b>	<b>7,464,410,420</b>	<b>1,310,214,002</b>	<b>96%</b>	<b>38%</b>	<b>78%</b>
<b>%</b>			<b>96%</b>	<b>38%</b>			

#### 1.4 Non Implementation of Budgeted Works

A review of performance under the Ministry of Roads and Infrastructure Development indicates that various projects with estimated costs totaling Kshs.200,146,661 were not implemented. These has put pressure on the subsequent years' work plans and hence delayed service delivery to residents of the County.

## 2. Overall Local Revenue Performance

During the year under review, the County Executive targeted to collect total revenue of Kshs.853,753,248. However, the actual collections totaled Kshs.545,226,040, resulting into a deficit of Kshs.308,527,208 (64%) hence the revenue was hugely under collected as shown below.

Receipts	2017/2018 Budget Kshs	2017/2018 Actuals Kshs	2016/2017 Actuals Kshs	2017/2018 Variance	
				Kshs	%
Rents	2,708,364	1,995,261	1,456,931	713,103	74%
Other Property Income	683,439	2,394,826	7,774,090	- 1,711,387	350%

Receipts	2017/2018	2017/2018	2016/2017	2017/2018	
	Budget Kshs	Actuals Kshs	Actuals Kshs	Variance Kshs	%
Receipts from Administrative Fees and Charges	6,933,571	7,290,848	6,067,863	- 357,277	105%
Fines, Penalties and Forfeitures	16,747,251	9,316,464	488,167	7,430,787	56%
Business Permits	115,827,331	85,987,384	91,283,142	29,839,947	74%
Cess	76,349,148	13,031,511	42,264,755	63,317,637	17%
Poll Rates	46,503,530	21,103,340	27,837,258	25,400,190	45%
Plot Rents	828,085	871,881	443,232	- 43,796	105%
Administrative Services Fees	51,667,956	44,843,070	42,258,820	6,824,886	87%
Sales Of Council Assets	2,564,957	10,000	1,554,000	2,554,957	0%
Other Miscellaneous Receipts	15,279,981	12,586,965	2,385,419	2,693,016	82%
Market/Trade Centre Fee	57,390,047	34,563,634	35,468,042	22,826,413	60%
Vehicle Parking Fees	79,122,171	52,131,901	48,926,942	26,990,270	66%
Housing	7,481,014	5,300,350	4,916,392	2,180,664	71%
Social Premises Use Charges	252,626	280,000	152,124	-27,374	111%
Other Education-Related Fees	18,102,363	16,062,197	4,018,512	2,040,166	89%
Public Health Facilities Operations (HOSPITALS)	335,982,724	216,604,658	159,910,054	119,378,066	64%
Environment & Conservancy Administration	12,549,036	9,664,840	9,558,742	2,884,196	77%
Slaughter Houses Administration	6,676,726	5,113,010	4,268,758	1,563,716	77%
Alcohol Drinks Licence	-	5,992,900	-	-5,992,900	100%
Other Health & Sanitation Revenues	102,928	81,000	62,500	21,928	79%
<b>Total</b>	<b>853,753,248</b>	<b>545,226,040</b>	<b>491,095,743</b>	<b>308,527,208</b>	<b>64%</b>

Further, revenue due from the AIA's such as housing, hospital and agricultural sources have not been included into the Automated Revenue Management System hence the

County has not fully automated revenue collection.

### 3. Overall Project Implementation Performance for the year

The County Executive was to implement a total of 315 projects/programmes by different sectors during the financial year as shown below. Further, analysis indicates that 124 or 39% of the projects had not started, 147 or 47% of the projects were still on going and 44 or 14% of the project had been completed as at the time of audit.

Ministry/ Department	Budgeted Allocations		Budgeted projects	Actual/Implemented Projects			% of completed projects
	Recurrent Kshs.	Development Kshs		Not Started	Ongoing	Completed	
Agriculture, livestock, fisheries and co-op development	404,253,214	440,655,456	12	-	3	9	75%
Tourism, Forestry, environment Water and natural resource	145,672,517	410,988,964	87	2	84	1	1%
Roads and Public works	168,672,552	1,200,287,706	98	62	24	12	12%
Education, Youth and sports	1,243,426,214	250,444,288	11	-	4	7	64%
Health	2,519,862,109	182,859,753	64	54	2	8	13%
Trade, energy and industrialization	49,555,801	157,728,284	9	-	7	2	22%
Gender, Culture,	104,130,398	33,844,644	4	2	1	1	25%
Lands, Urban and Physical Planning Housing and Sanitation	102,159,330	256,112,603	20	1	19	-	0%
Finance and Planning	1,305,443,188	323,042,936	5	-	3	2	40%
County Public Service	60,456,350	-	1	-	-	1	100%
Governors & D/Governor's office	409,012,755	2,598,078	1	-	-	1	100%
Public Administration & County Secretary	478,765,343	60,723,818	3	3	-	-	0%
<b>Totals</b>	<b>6,991,409,771</b>	<b>3,319,286,530</b>	<b>315</b>	<b>124</b>	<b>147</b>	<b>44</b>	<b>14%</b>
<b>% Implementation</b>				<b>39%</b>	<b>47%</b>	<b>14%</b>	

In view of the above, the Executive may not have achieved its targets as approved by the Assembly hence service delivery may not be realized by the residents of the County.

### 4. Pending Accounts Payables

The pending accounts payables figure of Kshs.725,731,414 detailed under annex 2 to the financial statements remained outstanding as at 30 June 2018 despite the positive



liquidity status confirmed by the cash and cash equivalents balance of Kshs.1,890,018,447 (Note 13A statement of assets and liabilities).

Further, it was noted that the pending accounts payables figure of Kshs.725,731,412 includes Kshs.94,173,642 in respect of commitments which were yet to be incurred from the budgetary allocation as stated below:

<b>Department</b>	<b>Financial Statement Balance Kshs.</b>	<b>Actual Pending Bills Kshs.</b>	<b>Commitments Kshs.</b>
Trade	13,010,495	17,106,177	- 4,095,682
Housing & Sanitation	18,403,780	19,503,780	- 1,100,000
Ministry of Water	145,059,265	136,371,476	8,687,789
Roads & Public Works	289,714,004	119,968,980	169,745,024
Governor	20,815,233	28,805,685	- 7,990,452
Public Administration	22,170,355	27,678,184	- 5,507,829
Lands, Urban And Physical Planning	27,021,936	4,350,649	22,671,287
Ministry of Health	138,938,768	235,368,085	- 96,429,317
Gender and Culture Youth & Sports	1,936,322	-	1,936,322
Ministry of Education Youth & Sports	6,256,500	-	6,256,500
CPSB	6,218,509	6,218,509	-
Ministry of Finance	36,186,245	36,186,245	-
<b>Total</b>	<b>725,731,412</b>	<b>631,557,770</b>	<b>94,173,642</b>

In the circumstances, the accuracy of the pending accounts balance of Kshs.725,731,412 could not be confirmed.

## 5. Long Outstanding Un-Collected Revenue Arrears

Included in the Executive's own generated receipts of Kshs.545,226,040 is property rates and rent and cess collections totaling Kshs.9,690,437 and Kshs.13,031,511 respectively. However, the Executive had arrears not collected since the inception of the County Government totaling Kshs.221,347,558 as at 30 June 2018 as highlighted below: Further, accrued penalties and interests could not be accurately ascertained.

<b>A</b>	<b>Property rates arrears</b>	<b>Kshs</b>
1	Kanduyi	129,765,622
2	Sirisia	114,688
3	Bumula	11,027,205
4	Tongaren	5,000,993
5	Kabuchai	342,602

6	Kimilili	6,268,862
7	Webuye	14,156,858
8	Mt.Elgon	304,350
	<b>Total</b>	<b>166,981,180</b>
<b>B</b>	<b>Cess defaulters</b>	
	Mumias Sugar Co. Ltd	30,614,569
	Nzoia Sugar Co. Ltd	12,364,707
	Mastermind Kenya Ltd	5,000,000
<b>C</b>	<b>Total</b>	<b>47,979,276</b>
<b>D</b>	Rent Arrears -Various estates	6,387,102
	<b>Grand Total</b>	<b>221,347,558</b>

Consequently, non-collection of all due revenue may have denied the County Executive funds for service delivery to its residence.

## REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

### Conclusion

As required by Article 229(6) of the Constitution, based on the audit procedures performed, except for the matters described in the Basis for Conclusion on Lawfulness and Effectiveness in Use of Public Resources section of my report, I confirm that, nothing else has come to my attention to cause me to believe that public resources have not been applied lawfully and in an effective way.

### Basis for Conclusion

#### 1. Failure to Adhere to the Fiscal Responsibilities Principles

During the year under review and as disclosed in the statements of appropriations: recurrent, development and combined for the year ended 30 June 2018, the County Executive incurred actual total expenditure of Kshs.8,774,624,422 comprising recurrent expenditure of Kshs.7,464,410,420 (85% of total expenditure) and development expenditure of Kshs.1,310,214,002 (15% of total expenditure). The actual expenditure on development was lower than the prescribed minimum of 30% required by Section 107(2) of the Public Finance Management Act, 2015.

Further, and as disclosed in the statement of receipts and payments for the year ended 30 June 2018, In addition, the compensation to employees expenditure was Kshs.4,261,626,702 of which the amount was 43% of the actual total revenue of Kshs.9,871,076,328 contrary to the maximum limit of 35% set by Regulation 25(1)(b) of the Public Finance Management (County Governments) Regulations, 2015.

## **2. Unauthorized Re-allocations of Vote Heads**

The County Executive incurred various expenditures totaling Kshs.53,343,017 in different vote heads instead of the approved budget lines hence contravening the provisions and requirements of the Public Finance Management Act, 2012.

## **3. Long Outstanding Imprests**

The accounts receivables balance in the statement of assets and liabilities of Kshs.203,180,108 includes long outstanding imprest figure of Kshs.125,250,064, held by staff for up to six (6) months after their due dates had lapsed, contrary to the provisions of Regulation 93 (5) of the Public Finance Management (County Governments) Regulations 2015 in regards to imprest management. Further, Management has not explained measures it has taken to recover the amounts as required by Regulation 93(6) of the same regulations.

Management is, therefore, in breach of the law.

## **4. Under Utilization of Mechanical and Transport Fund**

Included in other grants and transfers figure of Kshs.646,385,558, under Note 9 to the financial statements is the other capital grants transfers of Kshs121,105,480 which in turn includes Mechanical and Transport Fund (MTF) user fees for opening and grading amount of Kshs.65,668,325 for 206km of road and opening, grading and gravelling of Kshs.6,098,360 for a 5km road. However, only 190km of opening and grading roads has been completed, leaving 21km of roads not done in various wards costing approximately Kshs.11,157,230.

In the circumstances, residents of Bungoma County may not be getting the expected benefits from the completion of the roads.

## **5. Irregular Award of Scholarships**

The management, through Ministry of Education spent Kshs.22,675,734 to cater for scholarship of the bright and needy students. However, verification of the scholarship records revealed the following anomalies.

- (i) The Ministry awarded scholarship yet no scholarship policy had been formulated and the criteria on how the scholarships were awarded was not availed for audit verification.
- (ii) The Ministry did not provide acknowledgment of receipts from schools, evidence that the funds benefited the intended students.
- (iii) No admission letters from the students was availed for audit verification to authenticate that the applicants were indeed students in the schools listed.

- (iv) Imprests amounting to Kshs.9,900,00 meant to cater for educational benefits and expenses of the students was not surrendered after 7 days of the official assignment and had not been cleared by the County Treasury which is against the regulations.

## 6. Completed Projects not Operational

### 6.1 Incomplete Development of a Data Centre

The County made payment of Kshs.4,975,490 to a local computer dealer for setting up a data center. However, physical verification of the project under implementation revealed that the following equipment were supplied but were not installed for use.

Item	Remarks	Kshs.
2 Rack servers	Not functional	1,600,000
3 air conditioners	The floor standing not working. 2 wall-mount conditioners put in the office and not the server room	885,000
1 Router 29 series	Not functional	499,500
Software and licenses	not installed coz of lack of electricity	300,000
1 CCTV Camera	not installed.	50,000
Auxiliary Equipment	though available, are items are just lying idle	300,000
<b>Total</b>		<b>3,634,500</b>

Consequently, the County Executive has not obtained value for money on Kshs.3,634,500 spent on the equipment.

### 6.2 Dairy Commercialization Project Not Operational

The County made a payment of Kshs.9,377,350 to a local contractor for dairy commercialization area network at Bukembe. However, physical verification of the project under implementation revealed that the project is not operational notwithstanding full settlement of the contact price.

### 6.3 Mihuu Water Project Completed and not Operational

The County paid Kshs.4,111,580 for Mihuu Water Project. However, physical verification of the project revealed that it was not operational. In addition, the bills of quantities raised had no specifications on the dimensions and the extent of works to be done in the power house Kshs.500,000, water pump Kshs.1,200,000 and water kiosk Kshs.350,000.

Further, the Department of Water and Natural Resources did not provide documents from the other bidders to confirm whether the contractor was competitively procured.

#### **6.4 Variation on Construction of Slaughterhouse Road**

A local company was paid a total of Kshs.47,680,180 for the construction of slaughterhouse road measuring 2.4km in Kimilili Sub-County at a contract price of Kshs.86,256,910. However, review of the project status inspection report revealed the following:

- (i) The contractor deserted the site for unknown reasons after completing 1.1km only.
- (ii) The contract was eventually terminated without putting the contractor to account as per the terms of award of contract.
- (iii) At the point of termination, the works done were estimated to be less than 45% of the total while payment made was estimated at 55%. No steps were taken against the contractor to recover the overpayment.
- (iv) The County Executive advertised for the same contract and it was awarded to another contractor for the remaining works at a contract price of Kshs.66,000,000 and subsequently paid Kshs.18,337,721. The total amount spent on the project was Kshs.104,000,000, resulting into budget overrun and cost escalation by over 21%.

#### **6.5 Irregular Partitioning of Leased Office Space**

A local contractor was paid Kshs.13,518,652 for partitioning a leased office space. However, the following anomalies were noted in the transaction: -

- (i) The lease agreement between the County Executive and landlord was dated 27th June 2017 yet the contract award for partition was issued on 26<sup>th</sup> April, 2016 which was ahead of lease agreement.
- (ii) The agreement is dated but did not state the period of the works. Inspection and Acceptance Committee report is dated 17<sup>th</sup> May 2017 and certificate of works dated 2<sup>nd</sup> May 2017 all before the lease was agreed upon.
- (iii) The payment was made in June 2018 though not listed among the pending bills as at 30<sup>th</sup> June 2017. Therefore, the payment had not been budgeted during the year under review.

#### **6.6 Un-operational Sanitation Units**

Under the Ministry of Lands, Housing and Sanitation the following projects had been completed but have never been utilized despite the contract price been paid in full.

<b>Project</b>	<b>Kshs.</b>
a) Manyanga Mkt-Ablution Block	3,409,924
b) Boyofu Mkt-Erection of Pit latrines	1,266,232
c) Webuye Town-construction of ablution block	3,490,706
d) Chwele-ablution block	3,375,478
e) Tongaren Mkt-Pit latrines	1,486,644
<b>Total</b>	<b>13,028,984</b>

In view of the above, the Executive may not have achieved its targets and service delivery may not have been obtained by the residents of the County.

## **7. Procurement of Goods, Works and Services**

### **7.1 Direct Procurement of Furniture**

A local supplier was paid a total of Kshs.2,378,000 to supply furniture. However, the Ministry of Agriculture used direct procurement to procure the furniture contrary to the Section 91 of the Public Procurement and Assets Disposal Act, 2015. Further, the Executive did not provide for audit review, notification to the authority to use direct procurement, the appointment and minutes of the ad-hoc evaluation committee.

Consequently, the regularity of the expenditure of Kshs.940,457,716 on acquisition of assets during the year could not be confirmed.

### **7.2 Direct Procurement of Legal Expenses**

The County Executive sourced for legal services and paid Kshs.10,076,080 under the case, Kisumu E and LRC constitutional petition No.45 of 2017 and another case which have been going on since 23<sup>rd</sup> September 2015. However, no explanation was provided on how the County Executive came up with the legal fees outside the advocates remunerations order.

### **7.3 Purchase of Corrugated Steel Pipes**

A local supplier was paid Kshs.46,064,273 for the supply and delivery of corrugated steel pipes. However, scrutiny of the payment records revealed the following:

- (i) The County Executive did not provide a needs assessment on how it intended to utilize the pipes which are still in the yard since 30 August 2017 when they were delivered.
- (ii) The corrugated steel pipes were not in the procurement plan and the budget for the financial year.

- (iii) The County Executive did not maintain proper stores record to determine usage and stock balance as at 30 June 2018.

In the circumstances, the value for money in relation to purchase of corrugated steel pipes totaling Kshs.46,064,273 may not have been achieved.

## **8. Compensation of Employees**

The County Executive recruited twenty-seven (27) employees in different groups. However, the following irregularities were identified in the recruitment:

- There was no approved recruitment plan and indents from the Ministers;
- the positions were not advertised to ensure competitive recruitment;
- there were no shortlisting minutes, interview score sheets and authority from County Public Service Board to the County Secretary to appoint employees

Further, it was noted that six (6) staff members were not appointed to the correct job groups.

In addition, the County Executive absorbed four hundred and two (402) casual employees into permanent and pensionable terms during the year under review without following necessary recruitment procedures such as advertising for vacant positions to pave way for competitive recruitments, gender and regional balancing of staff.

Consequently, the legality and competitiveness of the recruitment process could not be verified.

The audit was conducted in accordance with ISSAI 4000. The standard requires that I comply with ethical requirements and plan and perform the audit to obtain assurance about whether the activities, financial transactions and information reflected in the financial statements are in compliance, in all material respects, with the authorities that govern them. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

## **REPORT ON INTERNAL CONTROLS EFFECTIVENESS, GOVERNANCE AND RISK MANAGEMENT SYSTEMS**

### **Conclusion**

As required by Section 7 (1) (a) of the Public Audit Act, 2015, based on the audit procedures performed, except for the matters described in the Basis for Conclusion on Effectiveness of Internal Controls, Risk Management and Governance section of my report, I confirm that, nothing has come to my attention to cause me to believe that internal controls, risk management and overall governance were not effective.

## **Basis for Conclusion**

### **1. Internal Controls on Revenue Collections**

The Executive has designated persons as receivers of revenue and further officers designated as authorized receivers of revenue. A review of the Ministry of Health and other health facilities shows that over Kshs.200 million was collected from various sources. However, these amounts were not supported by monthly returns, quarterly returns and receiver of revenue accountability statements showing total receipts and transfers to the exchequer or County Revenue Fund.

Consequently, non-accountability of all due revenue may have denied the Executive necessary funds for service delivery to the residents.

### **2. Incomplete Fixed Assets Register**

According to the Public Finance Management Act Regulations, 2015, Section 143(1), the Accounting Officer shall be responsible for maintaining a register of assets under his or her control or possession as prescribed by the relevant laws. A review of the fixed assets register indicated that various respective departments were still verifying the data. However, the following issues were noted.

- a) The asset in heritage from the Defunct Local Authorities and National Governments are still being verified to ascertain completeness of the assets.
- b) L/R number for most of land and buildings have not been indicated in the reference section hence we could not confirm the ownership.
- c) The depreciation and net value of the assets have not been factored into in determining the valuation of these assets.

Consequently, in the absence of a complete and verified register, we were unable to confirm the completeness and accuracy of assets belonging to the County Executive.

### **3. Management of All County Insurance of Assets**

The County Executive paid Kshs.19,671,437 to different insurance companies contracted by various Ministries to insure its assets. Had the Executive centralized these service, they would have enjoyed economies of scales in negotiations, avoid variant agency fees and ease in management of insurance.

In view of the forgoing, the management should come up with an effective and efficient ways to insure its assets as the current system is too decentralized.

### **4. Internal Controls on Air Travel**

The air travel by various ministries amounting to Kshs.14,212,379 had no approval from the accounting officers despite the County having designed a form to ensure compliance.



Furthermore, no boarding passes were attached as proof of travel and there were instances where some staff who were not within the approved job groups were allowed to use this mode of travel.

## 5. Under-recruitment of the Accounting Officers

Our review of the County Governance showed that some Ministries were under one accounting officer as follows:

Ministry	Accounting Officer
Agriculture, Livestock, Fisheries and Co-operative Development Public Administration and County Secretary Governor's and Deputy Governor's office	One Accounting Officer
Tourism, Forestry, Environment Water and Natural Resource Trade, Energy and Industrialization Lands, Urban and Physical Planning Housing and Sanitation	One Accounting Officer
Education, Youth and Sports Gender, Culture and Cooperatives	One Accounting Officer
Roads and Public works Health	One Accounting Officer

Consequently, weak governance by the Senior Management may affect the Executive's operation and subsequently service delivery.

## 6. County Executives Policies

The following policies and guidelines have not been developed or are in draft form awaiting approval and adoption. Further, there was no evidence that the risk management policy and framework is operational despite having been completed.

- a) Policy framework for Co-operative Societies
- b) ICT Revenue Frameworks
- c) Policy framework for Vocational Training Centers
- d) County Training Policy
- e) County Transport Policy
- f) Trade Development Policy
- g) Urban Development Policy
- h) County Public Land Policy
- i) Supply Chain Management Policy
- j) County Housing Policy
- k) County Energy Development Policy
- l) County Livestock Management Policy

The County Executive thus manages its resources and operates with lack of clear operating guidelines.

The audit was conducted in accordance with ISSAI 1315 and ISSAI 1330. The standards require that I plan and perform the audit to obtain assurance about whether effective processes and systems of internal control, risk management and governance were operating effectively, in all material respects. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

### **Responsibilities of Management and Those Charged with Governance**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Public Sector Accounting Standards (Cash Basis and for maintaining effective internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error and for its assessment of the effectiveness of internal control, risk management and governance.

In preparing the financial statements, management is responsible for assessing the County Executive's ability to continue sustaining services, disclosing, as applicable, matters related to sustainability of services and using the applicable basis of accounting unless the management intends to cease operations of the County Executive, or have no realistic alternative but to do so.

Management is also responsible for the submission of the financial statements to the Auditor-General in accordance with the provisions of Section 47 of the Public Audit Act, 2015.

In addition to the responsibility for the preparation and presentation of the financial statements described above, management is also responsible for ensuring that the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities which govern them, and that public resources are applied in an effective way.

Those charged with governance are responsible for overseeing the County Executive's financial reporting process, reviewing the effectiveness of how the entity monitors compliance with relevant legislative and regulatory requirements, ensuring that effective processes and systems are in place to address key roles and responsibilities in relation to governance and risk management, and ensuring the adequacy and effectiveness of the control environment.

### **Auditor-General's Responsibilities for the Audit**

The audit objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion in accordance with the provisions

of Section 48 of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISSAIs will always detect a material misstatement and weakness when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

In addition to the audit of the financial statements, a compliance audit is planned and performed to express a conclusion about whether, in all material respects, the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities that govern them and that public resources are applied in an effective way, in accordance with the provisions of Article 229(6) of the Constitution and submit the audit report in compliance with Article 229(7) of the Constitution.

Further, in planning and performing the audit of the financial statements and audit of compliance, I consider internal control in order to give an assurance on the effectiveness of internal controls, risk management and governance processes and systems in accordance with the provisions of Section 7 (1) (a) of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. My consideration of the internal control would not necessarily disclose all matters in the internal control that might be material weaknesses under the ISSAIs. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Because of its inherent limitations, internal control may not prevent or detect misstatements and instances of non compliance. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the County Executive's policies and procedures may deteriorate.

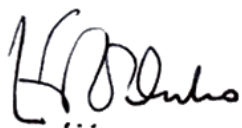
As part of an audit conducted in accordance with ISSAIs, I exercise professional judgement and maintain professional skepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of the management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the County Executive's ability to continue sustaining its services. If I conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the County Executive to cease to continue sustaining its services.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information and business activities of the County Executive to express an opinion on the financial statements.
- Perform such other procedures as I consider necessary in the circumstances.

I communicate with the management regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that are identified during the audit.

I also provide management with a statement that I have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on my independence, and where applicable, related safeguards.



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

**NAIROBI**

**18 February 2019**