

# REPORT OF THE AUDITOR-GENERAL ON THE COUNTY EXECUTIVE OF KAKAMEGA FOR THE YEAR ENDED 30 JUNE 2017

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## REPORT ON THE FINANCIAL STATEMENTS

### Qualified Opinion

I have audited the accompanying financial statements of County Executive of Kakamega set out on pages 7 to 75, which comprise the statement of financial assets and liabilities as at 30 June 2017, and the statement of receipts and payments, statement of cash flows and a summary statement of appropriation: recurrent and development combined 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 effects 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 Kakamega County Executive as at 30 June 2017, and of its financial performance and its cash flows for the year then ended, in accordance with International Public Sector Accounting Standards (Cash Basis) and comply with the Public Finance Management Act, 2012.

In addition, as required by Article 229(6) of the Constitution, based on the audit procedures performed, except for the matters described in the Basis for Qualified Opinion and Other Matter sections of my report, I confirm that, nothing has come to my attention to cause me to believe that public money has not been applied lawfully and in an effective way.

### Basis for Qualified Opinion

#### 1. Cash and Cash Equivalents

The statement of financial assets and liabilities reflects cash and cash equivalents balance of Kshs.1,582,340,523 which includes an amount of Kshs.1,151,793 being bank balances for sixteen (16) bank accounts operated for wards development funds which were not supported with the reconciliation statements as detailed in the table below;

Ward Development Fund Not Supported With Bank Reconciliation Statements					
Ward	Bank	Account No.	Amount in Financial	Certificate of Bank	Variance

				<b>Statements (Kshs)</b>	<b>Balance (Kshs)</b>	<b>(Kshs)</b>
1	Chevaywa	Coop Bank Kakamega	11441545740600	194	660,340	(660,146)
2	Khalaba	Family Bank Mumias	81000007450	753,936	1,114,853	(360,918)
3	Kholera	Family Bank Mumias	81000007453	11,040	77,222	(66,182)
4	Marama North			2,393		2,393
5	Mayoni	Family Bank Mumias	81000007458	48,756		48,756
6	Muranda	Family Bank Kakamega		(535,758)		(535,758)
7	Musanda	Family Bank Mumias	81000007465	43,160		43,1560
8	Kongoni Ward	KCB Moisbridge	1150193425	15,456	15,456	-
9	Koyonzo	Family Bank Mumias	81000007458	130,070	4,035,295	(3,905,225)
10	Lusheya/Lubinu	KCB Mumias	1150202904	791.35	225,791.35	(225,000.00)
11	Malaha/Isongo	Family Bank Mumias	81000007463	45,162	1,468,398	(1,423,236)
12	Mumias North	Coop Bank Mumias	1141498761800	3,425	3,425	-
13	Namamali	Family Bank Mumias	81000007460	16,339	171,982	(155,643)
14	Shianda Marenyo	Coop Bank Mumias	1144498760600	259,509	259,509	-
15	Kisa North	Coop Bank Kakamega	1141498748500	334,848	4,167,029	(3,832,182)
16	Kisa West	Coop Bank Kakamega	1141498748900	303,034	297,152	5,882
	<b>Total</b>			<b>1,151,793</b>	<b>10,644,037</b>	<b>(11,064,098)</b>

No cash books were availed for the sixteen (16) bank accounts to support the reported balances totalling Kshs.1,151,793.

Further, it was noted that, included in the opening balance for cash and cash equivalents of Kshs.2,135,109,847 is cash balance of Kshs.98,560,024 being bank balance for the County Assembly, Directorate of Alcoholic Drinks and Farm Input Collection account which differed with the adjusted cash book balance of Kshs.21,802,579 resulting in an unexplained opening variance of Kshs.76,757,446. In the circumstances, it was not possible to ascertain the accuracy and completeness of the cash and cash equivalents balance of Kshs.1,582,340,523 as at 30 June 2017.

## 2. Acquisition of Assets

### 2.1. Lack of Assets Register

During the year under review, the County Executive acquired assets comprising of land, buildings, furniture and assorted equipment amounting to Kshs.4,972,115,469.

However, the County Executive operates without assets register either in hard or electronic form for effective administration of assets acquired since inception and those inherited from the defunct local authorities.

## **2.2. Construction of Governors Residence**

Included in the acquisition of assets figure of Kshs.4,972,115,469 is a figure of Kshs.2,077,469,994 in respect to construction of buildings which in turn includes an expenditure of Kshs.66,666,705 for the construction of the Governor's residence. However, an audit review of the project records revealed anomalies stated below;

- (i) The contract number in the document availed was Tender No.CGKK/OG/16/17/002-Governor's residence in Lugari which differ with the information posted on the website as Tender No.CGK/OG/2015/2016/001 – Governor's residence at Likuyani.
- (ii) According to the advertisement Tender No.CGKK/OG/16/17/002-Governor's residence in Lugari, the tenders were placed in the tender box on 13 March 2017 at Kotecha Building and submitted bids were to be publicly opened on the same date. According to the advertisement Tender No.CGK/OG/15/16/001-Governor's residence in Likuyani, the tenders were placed in the tender box on Wednesday, 18 May 2016 at Kotecha Building and submitted bids were to be publicly opened on the same date.
- (iii) The ownership documents/ title deed for land on which the multimillion project is to be constructed were not availed for audit review, hence it was difficult to confirm the ownership of that land.
- (iv) Physical verification on 28 December 2017 revealed that though the Governor's residence land was to be completely fenced, one side had not been fenced.
- (v) Minutes/report in regard to the project confirming that there was public participation were not availed.
- (vi) The engineer's estimates for the Governor's residence were not availed for audit review.
- (vii) Physical verification revealed that the verandah measurements were changed from 2.8 M to 5.1 M but the cost implication was not quantified.

## **2.3. County Headquarters**

The construction of proposed County Headquarters was advertised on 5 March 2015 both in the Standard newspaper and the County Government website.

A local contractor was awarded the contract at a price of Kshs.125,740,280. However, review of project records availed revealed the following anomalies;

- (i) Though the total amount of the figure quoted was Kshs.125,740,280, there were casting errors in the bills of quantities and the actual amount after correction of the errors was Kshs.126,557,860, resulting into an increase of Kshs.817,580 in the contract price.
- (ii) It was noted that there were two different evaluation reports;
  - (a) The first evaluation report dated 10 April 2015 which shows that the evaluation report had 16 bidders and among them was a local contractor who had quoted Kshs.126,672,473. The report of engineers estimates appeared twice as engineer's estimates less prime costs and provisional sums of Kshs.73,150,000 and engineer's estimates of Kshs.120,000,000.
  - (b) The second evaluation report dated 25 January 2016 had 16 bidders and the local contractor who had quoted Kshs.126,672,473 in the first report, had now quoted Kshs.51,858,786. The engineers' estimates were recorded as Kshs.73,150,000.

Therefore, it was not possible to ascertain the correct evaluation applicable in the adjudication of the procurement process.

- (iii) The contract between the successful bidder and the County Executive of Kakamega was signed on 18 February 2016. The contract was to run for 52 weeks with the completion date being 23 February 2017. According an undated Project Manager's report from Ministry of Roads Infrastructure Public Works & Energy, the completion period was extended by 25 weeks to 25 August 2017. It was however noted that the project was not complete progress as at 19 December 2017 when physical verification was conducted.
- (iv) Further, it was noted that a project vehicle which was provided for in the bills of quantities at a cost Kshs.4,600,000 had not been procured.
- (v) In addition, a total sum of Kshs.6,570,000 for special preliminaries was not accounted for.

#### **2.4. Irregular Purchase of Laptops and Accessories**

The contract of Kshs.4,771,200 was awarded to a local firm on 15 December 2016 for supply of 24 laptops for expansion of Oparanya Care programme. However, it was noted that tenders were awarded before approval of the budget for expansion of the

program to cover additional 24 facilities. In a meeting of 23 August 2016, the Executive Committee put the expansion programme on hold.

After the meeting, the Secretary to the County Executive Committee vide letter Ref. No. OG/CGK/ECM/2/3/Vol.V (292) informed the County Secretary that the Executive Committee in its meeting on 23 August 2016 declined to approve the budget of the expansion program. However, in disregard of the decision of the committee, the Program Coordinator went ahead and awarded the tender on 15 December 2016 for the supply of the laptops. The contractor signed the contract on 15 December 2016, which is coincidentally the same date the LPO was issued. The laptops were delivered on 21 December 2016 and put in the store and are lying idle without being utilized. There was no inspection and acceptance report availed for audit review.

## **2.5. Purchase of Motor Cycles**

The Executive, through the Ministry of Agriculture contracted Toyota Kenya for the supply of 48 motorcycles at a total price of Kshs.11,836,800. However, the following anomalies were noted:

- (i) A review of the approved budget availed showed that there was no budget for the procurement of motorcycles.
- (ii) Contract documents for the award of the tender were not availed for audit verification. The local purchase order was raised on 3 February 2017 and a proforma invoice raised on 6 February 2017 but delivery was made on 16 August 2017, seven months later and issued by procurement to the user department after three months on 16 November 2017.
- (iii) The motorcycles have not been registered and distributed and are stored at Kenya Agricultural and Livestock Research Organization stores.
- (iv) Requisitions made by user departments had no approvals.

In the circumstances, it was not possible to ascertain viability of the purchase.

## **2.6. County Enterprise Resource Planning**

The County Government entered into a contract with a local company for supply of ERP system through leasing model of purchase at a price of Kshs.509,240,000 plus VAT. The contract provided for a monthly instalment of Kshs.7,327,333. Out of the contract price of Kshs.509,240,000, Kshs.69,600,000 was for gap analysis study as per bilateral negotiation minutes. However, review of the project records revealed that there were no tender documents and implementation reports.

## **2.7. Projects Implementation Status**

A review of 271 projects showed that the programmes under implementation were at very low levels of completion as analysed below;

<b>Category</b>	<b>No. of Projects</b>	<b>Contract Value (Kshs)</b>	<b>Expenditure (Kshs)</b>
Projects below 20% completion	50	682,599,539	122,643,591
Projects above 20% but below 50%	44	1,389,708,593	276,305,192
Over 50% but not complete	149	8,898,131,551	2,245,909,674
Complete and in use	28	332,804,351	285,239,826
<b>Total</b>	<b>271</b>	<b>11,303,244,033</b>	<b>2,930,098,282</b>

From the foregoing, about 90% of the projects were incomplete despite the projects having surpassed the contracted completion dates. This results into delay in service delivery and increased costs due to inflation.

Further, it was noted that the Executive had not established a project management team as envisaged in the Public Finance Management Act, 2012.

## **2.8. Variance in Assets and Payments.**

It was noted that the acquisition of assets figure of Kshs.4,972,115,469 differ with the actual payment analysis of Kshs.4,174,898,511 by an unreconciled variance of Kshs.797,216,958.

## **2.9. Stalled/Abandoned/Deserted Projects**

Included in the acquisition of assets figure of Kshs.4,972,115,469 are 31 projects with a cumulative contract price of Kshs.204,299,424 being among the 271 projects listed as being implemented. These projects had stalled or were abandoned due to varying reasons among them capacity of contractors or poor project management. The stalling of these projects was after Kshs.75,558,313 had been paid to the respective contractors. The Executive may end up not getting value for money.

## **2.10 Stalled/deserted projects Ministry of Public Service & Administration**

### **2.10.1 Bunyala West Ward Office**

Included in the acquisition of assets figure of Kshs.4,972,115,469 is Kshs.2,077,469,993 in respect to construction of buildings which in turn includes Kshs.3,900,000 paid to a local contractor for construction of Bunyala West ward office. However, review of the project records showed that no work had been done since the contractor did not commence works after the site handing over on 24 January 2017.

### **2.10.2 Lwandeti Ward Office**

Included in acquisition of assets figure of Kshs.4,972,115,469 is Kshs.2,953,998 for construction of Lwandeti ward office. The project was done to a completion status of

60% having been roofed but a private developer filed a suit in 2015 claiming ownership of the land, parcel No.N/Kabras/Lwandeti/2969. Although an out of court settlement was reached with the claimant, the project has not been made accessible to the residents. In the circumstances, it was not possible to confirm accuracy and completeness of the value of assets acquired since inception and those inherited from the defunct local authorities.

### **3. Compensation of Employees**

Included in the compensation of employees figure of Kshs.3,713,660,663 is an amount of Kshs.36,542,406 which comprise staff meal allowances of Kshs.2,091,078 and Kshs.34,451,328 being tax penalty for delayed remittance of pay as you earn (PAYE). These two payments do not constitute a charge on compensation of employees as appropriated in the approved budget.

Further, the total net monthly remittances to the banks according to both the Integrated Personnel Payroll Data (IPPD) together with the manual payrolls was Kshs.1,687,233,250 which differed with the figure of Kshs.1,868,573,271 for the actual remittances to the designated county personnel bank accounts, leading to an unexplained difference of Kshs.181,340,021.

In addition, compensation of employees support schedule reflects a figure of Kshs.3,713,660,633 which differed with Kshs.3,534,538,972 generated from the payroll and Kshs.3,684,346,553 payroll summary sheet. No reconciliation was availed to support the balance of Kshs.3,713,660,633 from the available records.

In the circumstances, it was not possible to ascertain the accuracy of compensation of employees figure of Kshs.3,713,660,633 incurred during the year.

### **4. Use of Goods and Services**

#### **4.1. Unreconciled Rent Payments**

Included in the use of goods and services figure of Kshs.1,395,918,882 is a figure of Kshs.46,491,572 being payments to various landlords for rented premises. However, the schedule availed for audit review showed a payment of Kshs.40,887,079 translating to un-reconciled variance of Kshs.5,604,493. Further, it was also noted that some rented premises such as the Kotecha building which is up to fifth floor were not fully occupied.

In the circumstances, it was not possible to ascertain accuracy and propriety of the expenditure of Kshs.46,491,572 incurred on rental of produced assets during the year under review.

#### **4.2. Consultancy Services on Ward Projects**

Included in the use of goods and services figure of Kshs.1,395,918,882 is Kshs.54,817,250 in respect of utilities, supplies and services which in turn includes

Kshs.3,324,920 paid to a local audit firm for consultancy services on ward projects. However, contract documents relating to the consultancy services were not availed for audit verification.

#### **4.3. Provision of Training Services**

Included in the use of goods and services figure of Kshs.1,395,918,882 is Kshs.39,487,720 in respect of training expense which turn includes Kshs.4,200,000 paid to a local driving school for provision of training services on road safety and driving skills to motor cycle riders in the County. However, it was noted that out of the 600 motor cycle riders that were identified to be trained and issued with interim driving license, only 450 participants were trained but were not issued with the requisite licenses.

#### **4.4. Supply of Car Wash Machine and Water Tanks**

Included in the use of goods and services figure of Kshs.1,395,918,882 is Kshs.54,817,250 in respect of utilities, supplies and services which in turn includes Kshs.4,485,000 paid to a local firm for supply of sixty five (65) high pressure car wash machines and branded cylindrical water tanks.

However, an a audit review of tender evaluation minutes document revealed the following;

- a) It was an open tender process that was advertised on the county's website in April 2016.
- b) Tender was closed and opened on 6 April 2016
- c) Evaluation was done on 7 April 2016
- d) The winner was not the lowest evaluated bidder, amongst the three bidders. The other two bidders had quoted Kshs.4,095,000 and Kshs.5,850,000 respectively.

Further, an audit review of the project file revealed the following;

- a) The tender/bid documents that were returned are dated 25 November 2015
- b) Deadline for submission of the tenders was 25 November 2015
- c) Opening of tenders was to be done immediately after closing
- d) As per the project file the following bidders had also submitted their bids; Royal Brooks Agencies Kshs.4,418,700, Geamu Investments Kshs.5,850,000, Polymel Investment Kshs.4,875,000, Eden Equipment Ltd Kshs.6,240,000, Lavio Motors Kshs.6,045,000, Daveken Auto Spares Kshs.8,060,000, M/S Misigo Motors Garage Kshs.5,200,000 and Broadland Automobile Services Kshs.6,305,000.

#### **4.5. Construction of ECDE at Mwiwala Primary School**



The county executive disbursed Kshs.2,500,000 to Mwiya Primary School under use of goods and services through payment voucher No.D574 dated 9 June 2017. The payment schedule indicates that the funds were to be deposited in Family Bank Ltd, account No.078000032532, Kakamega Branch. However, an audit inspection revealed that there was no ECDE class that had been constructed despite the fact that Kshs.2,500,000 was disbursed. No cabinet committee minutes showing that such serious omission had been tabled and proper explanation noted. In addition, no bank statement was availed for account No.078000032532 for audit review.

In the circumstances, it was not possible to ascertain propriety of the use of goods and services figure of 1,395, 918,882 incurred during the year under review.

## 5. Variance in the Financial Statements and Payments through IFMIS

The statement of receipts and payments reflects a total expenditure of Kshs.12,366,386,571 which differs with the IFMIS extracts records together with the manual payments made outside IFMIS totalling to Kshs.13,539,903,943 by an unreconciled variance of Kshs.1,173,517,372.

In addition, it was noted that the National Treasury quality review feedback on the financial statements, through letter Ref:AG/FS/4810/Vol.1(8) of 10 November 2017 have not been acted on as detailed below;

<b>Details</b>	<b>Financial Statements Kshs.</b>	<b>IFMIS Kshs.</b>	<b>Variance Kshs.</b>
Receipts	11,347,358,859	13,418,502,392	2,071,143,533
Payments	12,366,386,571	10,578,770,916	(1,788,644,111)
Cash & Bank	1,582,340,523	30,693,010,558	29,110,075,384
Receivables	24,557,260	170,503,651	145,946,391
Payables	264,310,223	30,734,241,541	30,468,308,211

No plausible explanation was given on the cause of the variance and how the same has not been accounted for in the financial statements.

In the circumstances, it was not possible to ascertain accuracy and completeness of the balance in the financial statements.

## 6. Monitoring and Evaluation Reports

Review of the monitoring and evaluation reports availed at the Department of Treasury and Economic Planning showed on a sample basis that 171 projects estimated to cost Kshs.1,079,245,799 and already allocated Kshs.291,310,859 were monitored and

evaluated. Included in these projects were 43 abandoned projects or 25% with a total contracted cost of Kshs.140,765,149 and allocated Kshs.104,810,624. Among the 43 projects, 7 are complete at Kshs.7,372,910 but not benefiting the residents for varied reasons ranging from location to poor workmanship.

The status of the remaining 39 projects with a contract sum of Kshs.265,056,198 and wherein Kshs.37,402,240 had been disbursed was not explained.

## 7. Pending Bills

Examination of records availed for audit review on pending bills revealed that there were pending bills totalling Kshs.1,068,266,852 for all departments as tabled;

<b>Department</b>	<b>Amount(Kshs)</b>
Lands	138,575,261
Education, Science & Technology	4,264,023
Trade	30,931,420
Agriculture, Fisheries and Livestock	23,368,486
Oparanya Care	253,031,510
Health Services	163,785,878
Infrastructure, Public Works & Energy	210,007,419
Office of the Governor	23,933,786
Public Service & Administration	174,042,733
Finance and Economic Planning	42,484,436
Social Services, Youth and Sports	2,841,900
<b>Total</b>	<b>1,068,266,852</b>

However, Annex 1 to the financial statements reflected payables balances of Kshs.799,421,944 as analyzed in the table below which differs with the analysis of bills provided by all departments at Kshs.1,068,266,852 by Kshs.268,844,908 which has not been reconciled or explained.

<b>Description</b>	<b>Amount Kshs.</b>
Construction of Buildings	127,301,577
Construction of Civil Works	264,453,182
Supply of goods	231,454,348
Supply of Services	176,212,837
<b>Total</b>	<b>799,421,944</b>

Consequently, it is not possible to confirm that the pending bills reflected in the financial statements of Kshs.799,421,944 as at 30 June 2017 as fairly stated.

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the County Executive of Kakamega 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 judgments, 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 communicate in my report.

### Other Matter

#### 1. Budget Performance Analysis

##### 1.1 Under/Over Expenditure

During the year under review, the Executive failed to meet its budget aspirations on both development and recurrent combined as detailed below:

Item	Budget Kshs.	Actual Kshs.	Variance Kshs.
Transfer from National Government Entities	Nil	184,989,000	(184,989,000)
Proceeds from foreign Grants/Development	115,071,549	11,750,000	103,321,549
Conditional additional Allocations to Kakamega	255,801,230	244,167,148	11,634,082
County Own generated Revenue	894,070,561	739,384,826	154,685,735
Compensation of Employees	3,485,524,405	3,713,660,633	(228,136,228)
Use of goods & services	1,659,170,300	1,396,456,894	262,713,406
Acquisition of Assets	6,325,149,467	6,357,384,412	(32,234,945)

Failure to absorb the budgeted provision is likely to lead to poor service delivery to the residents of the Kakamega County.

## 1.2. Under Collection of Receipts

During the year under review, the Executive collected Kshs.449,487,486 in form of own generated revenue against a budget figure of Kshs.994,070,561 resulting into under collection of Kshs.544,583,075 equivalent of 55% shortfall on the approved target.

## 2. County Teaching and Referral Hospital

### 2.1. Foundation Variation

From the initial plan, the foundation was to be pile based but during a physical verification, it was noted that this was varied to a raft, however no documentation was availed to show the effects of this variation.

In the absence of a detailed variation order for the omissions and additions, the cost implications of these changes remain unknown.

### 2.2 CGH Renovation-Amenity Block A, B, C, OPD, Pharmacy, Fencing, Surgical Theatre and Gate

#### 2.2.1 Change of Design

Reasons for change, quantities and cost implication documentation were not availed.

Out Patient Department to Casualty Veranda flooring was poorly done. Amenity Block C Original drawings changed (Length). The drawings were for single line building. The length was divided half way to make two wings facing each other.

## 3. Irregularity in Procurement of Construction of Modern Markets

During financial years 2014/15, 2015/16 and 2016/17, the County contracted various contractors to construct modern markets in various regions within the County at a contract sum of Kshs.55,816,147 as detailed in the table below:

<b>P.V No</b>	<b>Payment Date</b>	<b>Sub Item Description</b>	<b>Payee</b>	<b>Contract Sum (Kshs)</b>	<b>Amount Paid (Kshs)</b>
D319	25-Jan-17	Construction of a Modern Market at Harambee Phase II	Transmillenium Builders Limited	10,888,670	5,232,383
D379	18-Apr-17	Construction of Ablution Block at Matunda Market	Devide Building Contractors Limited	5,557,409	1,616,715
D396	24-Apr-17	Construction of Butali Modern Market Phase II	Midland Construction Ltd	13,617,588	8,607,200
D439	24-Apr-17	Proposed Construction of Modern Market Phase IIAt	Eldo-Rotsa Construction	10,085,273	4,998,321

		Butere Trading Centre.	Company Ltd		
D546	30-May-17	Construction of Mulwanda Market	Interlect Contractors Ltd	6,954,081	402,226
D553	31-May-17	Construction of Moder Market at Shianda	Mahadi Invetments Limited	8,713,127	3,012,789
			<b>Total</b>	<b>55,816,147</b>	<b>23,869,635</b>

At the time of audit, a review of payment vouchers indicated that Kshs.23,869,634.85 was paid during year under review. The contracts were to be subjected to a procurement process.

However, it was noted that a letter written by County Secretary dated 16 February 2016 vide reference OG/CGK/ECM/2/3/Vol.V(43) indicated that there were extra works done on Butere, Butali, Matunda, Shianda, Mulwanda and Harambee markets without being procured.

#### 4. Contracts Above the Engineer's Estimates

Analytical audit review of the quoted amounts for six (markets) reveals that all the responsive bidders quoted above engineer's estimate acceptable 15% margins of deviation as analyzed in the tables below.

However, the county government through tender evaluation committee overlooked this and instead went ahead and awarded contracts as follows:

#### 5. Renegotiated Contracts

Initial audit verification showed that four (4) project with a total initial contract sum of Kshs.202,261,771 were renegotiated to a new sum of Kshs.145,469,665 resulting into a discount of Kshs.56,792,106 being 28% of the original contract price. However, the following anomalies were noted:

- (i) The re-negotiation resulted to a cumulative discount of Kshs.56,792,106. This is an indication of alteration of a number of works not supported with revised bills of quantities and revised architectural drawings.
- (ii) It was however noted that there was no defined criteria to be used to arrive at the revised contract amounts totalling to Kshs.145,469,665. As such these revised sums and the discounts could not be related to the bills of quantities making it impossible to ascertain the value of work done. As such it was not clear how the valuation or certification was being done.
- (iii) It was further noted that exaggerations of prices quoted may have taken place given that no detailed engineers' estimates were on file to guide in the evaluation

of the works or preparation of the budget or the discounts without revision of works justified.

- (iv) Project file for Nambacha modern market revealed that payment certificate No.1 dated 31 November 2016 indicates a contract sum of Kshs.32,504,971 resulting to unexplained variance of Kshs.8,430,799.

## **6. Failure to Reconcile Reported Development Expenditure**

During financial year 2016/2017, the Department of Education, Science and Technology budgeted Kshs.544,732,000 for development but the actual expenditure was Kshs.997,018,072 resulting to an unexplained over expenditure of Kshs.452,286,072

A local contractor was awarded contract to construct twin workshop phase II at a contract sum of Kshs.8,028,569 at Shilolavakhali County Polytechnic. The contract was to take twenty four (24) weeks with expected completion date being 12 November 2015. However, the following anomalies were noted:

- (i) At the time of audit, the construction was not yet complete two years down the line. No evidence of request for extension of contract was availed for audit review. There was no evidence that the contract was advertised in at least two daily newspapers of nationwide circulation. The workmanship was observed to be poor and there were big black spots on the ceiling board an indication of leaking roof.
- (ii) Original tender opening minutes-receiving and opening, bids from unsuccessful bidders, tender committee minutes, tender evaluation committee report, notification of awards, acceptance letters, performance bonds, contract agreements, copies of regret letters to unsuccessful bidders, approved drawing and engineer's estimates for the constructions' were not availed for audit review. In absence the documents, it was impossible to confirm whether the contractor was competitively sourced.
- (iii) No evidence was given to confirm that the project was being supervised by the relevant ministry and in order to confirm whether works were being done according to specifications indicated in the bills of quantity and acceptable standards.
- (iv) No copies of appointment letters to members of tender opening, tender evaluation and inspection and acceptance committee. In absence of the letters we were unable to confirm whether the members who signed were duly authorized.

## **7. Failure to Prepare Budget Estimates and Prepare Financial Statements**

Audit review of the County Polytechnics individual files revealed that none of the sixty one (61) county polytechnics' prepared budget estimates and financial statements as

required in Kakamega County Polytechnics Act, 2014. However, during the financial year the County disbursed Kshs.42,025,000 made up of Kshs.25,005,000 and Kshs.17,020,000 for 5,001 and 6808 trainees respectively. Further, no returns were availed to ascertain the beneficiaries.

No reason was given for failure to submit budget estimates. In absence of approved budget estimates and returns we were unable to confirm how the budgeted amounts per vote heads were arrived at, awarded and utilized.

### **Responsibilities of Management and Those Charged with Governance on the Financial Statements**

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

In preparing the financial statements, management is responsible for assessing the entity's ability to sustain its services, disclosing, as applicable, matters related to sustainability of services and using the going concern basis of accounting unless the management either intends to liquidate the Executive or to close operations 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.

Those charged with governance are responsible for overseeing the Executive's financial reporting process.

### **Auditor-General's Responsibility on Financial Statements**

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 of Kenya. 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 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.

As part of an audit conducted in accordance with ISSAIs, I exercise professional judgment 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.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances and for the purpose of giving an assurance on the effectiveness of the County Executive's 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 ability to continue offering 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 offering 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 of the entities or business activities 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**

**16 July 2018**